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Thesis

THE AUSTRO-GERMAN CUSTOMS UNION OF 1931 AND  
ITS RELATION TO THE ANSCHLUSS-MOVEMENT.

By

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## INTRODUCTION

A study of the attempt of Austria and Germany to unite in an economic sense, is intensely interesting at this time. Though it may sound highly speculative, an adequate solution of this problem might have prevented the vast destruction and the profound misery that has engulfed the world.

This union presented certain problems that are still unsolved. And it is doubtful if the field of battle alone will ever present us with the proper answer.

The masses asked for bread - the leaders gave them endless discussions and false conclusions. Little wonder then that they were so easily aroused by false prophets with alluring promises.

The historical background, the economic necessities and the political pressures that worked for and against this attempted economic union of two related people represent almost a miniature edition of world problems.

Germany and Austria tried, by peaceful means, to accomplish what later on was consummated by force.

It is a typical example of man blindly groping for mastery of himself, his physical environment and other men.



## Ch. I. Historical Background

If the creation of unity between two nations ever is to be made a reality, economic calculations are not sufficient to arouse the necessary enthusiasm. Of course, economic considerations about possible advantages and disadvantages of such a union are of great importance, but political transformations are never accomplished by economic necessity alone. The unpredictable human soul, with its material and ideal conceptions, its definite and vague impulses and desires is the origin of social evolutions.

Modern German and Austrian historians,<sup>1</sup> when discussing their countries, enthusiastically emphasize the common interests of their two nations in the past, present and future. This fresh historical consciousness takes into consideration the cultural, economic, social and political aspects of the Anschluss movement. To achieve a true conception of this movement, aiming at union between Austria and the German Reich, the historical background for the movement should be examined.

The continuous struggle for supremacy between Habsburgs and Hohenzollerns was an outstanding phenomenon of the old Roman Empire. The medieval Austrian and German was a subject of his Duke or Archduke, and he was conscious only of a vague allegiance to a Holy Roman Empire. Then soldiers were not dying for nationality - religion was the crusading word.

Martin Luther's challenge of the Pope not only instigated a

1. Naumann, Friedrich, Central Europe, 1916  
Schiffssler, W., Deutsche Einheit, 1937







religious revolution, but caused a split in the loosely united Empire. The Northern German princes following the Protestant banner were determined to maintain their local state rights against the Empire. To submit to the Empire meant subservience to Austria, and that was the same as submitting to the Pope.

Austria remained the champion of the Roman Catholic faith. Devotion to that church was for a long time the keystone of Austrian policy. During the Thirty Years War Austria was the leader of the Catholic Bloc. Through its championship of the Catholic Church the Austrian Empire gained prestige, and by judicious marriage alliances it added territories. Bohemia, Holland, Belgium, Burgundy, Spain and half of Italy thus came under Austrian domination. Austria's diplomatic and commercial interests included all of Europe. But like other mighty empires, wars with France, Prussia and Turkey gradually but steadily drained her resources.

Napoleon's blows finally dissolved the Holy Roman Empire. This amorphous entity once described as neither Holy, nor Roman, nor Empire, was replaced by a weak Germanic Bund or Confederation, headed by the Austrian Emperor.

Austria, after being the abode of enlightened, liberal and progressive despotism under Maria Theresa, Joseph II and Leopold II - became, during the early 19th century, the main residence of reactionary movements. Metternich seemed to be the main obstacle to any form of national unity and political liberty. Austria favored a loose alliance of German princes with the



Austrian Emperor as the first among its leaders. Energetically, Austria tried to prevent the formation of any true national union.

There existed a clear division of two factions within the Confederation: one led by Austria, and the other by Prussia. From 1815 to 1848, however, the Kings of Prussia accepted Austrian control rather than risk the loss of everything in a national movement. Some Germans advocated the creation of a "little Germany", by dropping Austria and her possessions from the Confederacy. The Frankfurt Assembly of 1848 failed mainly because of this split into a Kleindeutsch and a Grossdeutsch faction.

Where Democracy failed in 1848 Bismarck succeeded in 1866, when the Habsburgs ended their role as leaders of the German peoples. After the Austro-Prussian War, a Kleindeutsch North German Confederation was formed without Austria. In 1871 a Hohenzollern was proclaimed German Emperor.

An important contribution to German Unity, even if not wholly intentional, was the Zollverein. Friedrich List, the father of the customs union idea, worked to make an economic union between Austria and Prussia a reality. The statesmen in Vienna were not, however, very interested when List in 1820 tried to persuade Emperor Franz Joseph and Metternich to take the initiative in the creation of a "grossdeutschen" customs union. List tells in a letter to his wife Febr. 12, 1820,<sup>1</sup> that in spite of a cold reception in the Vienna court the most

1. Kleinwächter, F. F. G., Die Anschlussfrage. P. 21.



influential manufacturers in Vienna seemed to favor his plan.

The smaller German states were gradually attached to the Zollverein, accomplished as a result of Prussian administrative reform.<sup>1</sup> Material interests as well as sympathy were the main motive for joining this Prussian system. It was easy for Prussia to bring pressure to bear on the states surrounding her territory by increasing the dues on taxable goods or even by forbidding transit altogether.

In 1834 the Deutscher Zoll-und Handels verein came into existence. It included for tariff purposes within a single frontier, the greater part of present day Germany. Austria made efforts to break up the Zoll-verein. Germany as a counter stroke came to terms with the Stener verein. Thus the union that had opposed the Zoll-verein was absorbed in the Prussian system in 1854.

When Prussia had achieved a predominating influence over most of what now is Germany, Austria came too late, and sought in vain for admission. The consciousness of national unity increased together with material prosperity and the German states began to look to Berlin rather than to Vienna as the centre of this unity.

Austria thus had to abdicate her position as a German state and their traditional leader. The Habsburg domination was based on personal loyalty to the reigning family and upon an ancient tradition of cosmopolitanism as opposed to nationalism. Austria's population consisted of about 12,000,000 Germans and 39,000,000

1. Ashley, Percy, Modern Tariff History, 1910. Part I





non-Teutonics. The Habsburg family was, however, of Teutonic origin and the official language in the Empire was German.

The Habsburg Empire was overshadowed by the glory of the Court. The Grafs lived isolated in their glamour. The peasants were tied to the soil as serfs to their lords. They lived in memories of other days and viewed the gloomy valleys between the towering, glittering summits of the Carpathians as the home of their ancient supernatural gods, were wolfs and hobgoblins.

The different racial masses within the Empire were, however, pulling it apart. The political rule was unpopular, but the economic union of the Danube basin gave immense advantages. As a consequence of this political instability, the Austro-Hungarian Dual Monarchy had to pursue a very conservative policy both at home and abroad. This supernational system was gradually deprived of its moral and political basis, when Germany's nationalism invaded Austria and intensified the nationalism of Slavs and Magyars.

It is very doubtful if the political structure of Austro-Hungary could have been maintained, even if the World War had not occurred. The conflicting interests of the various nationalist groups within the Empire was one of the chief causes of the downfall of the Habsburg Monarchy.





Ch. II. The Peace Treaties and the  
Anschluss Movement.

If the Franco-German War of 1870-71 caused the liberation of Central Europe from France, the World War created a stronger conscious unity between Germany and the Austrian Empire. The Triple Alliance bound these states together in a political and military union. According to German historians the spirit of separatism seemed to have disappeared from the German peoples.

As a last desperate effort to hold together the domains of the Austro-Hungarian Empire, Charles, who succeeded Franz Joseph as Austrian Emperor in 1916, issued a manifesto promising the formation of a new Austrian federative state.<sup>1</sup> (Oct. 16, 1918) But neither Germans, Magyars or Slavs were willing to surrender their hegemony. A week after the armistice was signed Charles abdicated. Dr. Victor Adler later remarked, "Charles never had a fair chance; but his feet were in the right path and his heart in the right place".<sup>2</sup>

The plans and dreams of Masaryk, Benes, Stefanik, Supeto and other nationalists were realized, and the Austrian Empire was shattered by revolutions from within. Thus the Paris peace makers should not be blamed for the disruption of the Danubian Monarchy. Self determination was sought by the parts of the former Empire on the basis of Wilson's Fourteen Points - and the dual monarchy ceased to exist.

1. Graham, M. W., New Governments of Central Europe, 1924. P.501.  
2. Germain, V. W., Austria of To-Day, 1932, P. 20.



When chaos and disruption threatened Austria in the winter of 1918-1919 there was a strong desire for an early restoration of economic stability and order in German-Austria. The Constituent Assembly saw two ways open to achieve this goal - to adhere to a Danubian Confederation and preserve the economic unity or to unite with Germany. Racial antagonisms and mutual hatreds made a Danubian Confederation impossible. The provisional government therefore declared the Austro-German Republic an integral part of Germany.<sup>1</sup> Even though Austria had been excluded from the German Union in 1867 it now seemed natural and easy to re-enter a democratized Reich, when Austria's survival depended on the solution of its present difficult problems.

Though the question was not of such grave importance to the new German government, Austria's struggle for union, was of course regarded with greatest sympathy. Since the Austrians desired Union, Germany was glad and willing to absorb them. Stresemann in his speech in the German Reichstag Oct. 22, 1918 even stressed the cultural unity of the two countries.<sup>2</sup> Frederick Naumann and others showed their appreciation of Austria's desire to become a part of the German Reich, when they welcomed their "blood brothers" from the South as new subjects of the Reich. Germany's official viewpoint was displayed in the Weimar Constitution, where Art. 61 proclaimed that "Deutschösterreich erhält nach

1. Graham, M. W., New Governments of Central Europe, 1924. P508

2. Ball, M. M., Post-War German-Austrian Relations, 1936. P.11



seinem Anschluss an das Deutsche Reich das Recht der Teilnahme am Reichsrat mit der seiner Bevölkerung entsprechenden Stimmenzahl." 1

However, the Austro-German efforts to realize Anschluss were vetoed by the Peace conference. Art. 88 of the Treaty of Saint Germain forbade the union of Germany and Austria. It imposed upon Austria the obligation to "abstain from any act which might directly or indirectly or by any means whatever compromise her independence." 2 The Austrian independence was inalienable except with the consent of the League of Nations. The Austrians were also forbidden to call their state German-Austria. The name was changed to the Republic of Austria.

Art. 61 in the Weimar Constitution was condemned as a violation of Art. 80 in the Versailles treaty, according to which Germany promised to "respect strictly the independence of Austria." 3 Under threat from France, that the right bank of the Rhine would be occupied, Germany declared Art. 61 without force.

France was particularly eager, during the peace negotiations to reduce Germany, Austria and Hungary to a state of military impotence, - to eliminate any danger of a new war between France and Germany. This distrust of German political leadership and

1. Kleinwächter, F. F. G., Die Anschlussfrage, 1930. P. 74.

2. Carnegie Endowment for International Peace, The Treaties of Peace, 1919-1923. P. 297

3. Carnegie Endowment for International Peace, The Treaties of Peace, 1919-1923. P. 59





fear of Germany in general seemed to have influenced the whole atmosphere of the peace conferences. Many of the political peace arrangements show that the decisions were achieved under the influence of war passions and war psychology. The document contained much that in a more sane and sober atmosphere would have been considered unworkable and unjust.

Some Austrian bankers and industrialists assured the Entente representatives in Vienna that Austria did not need the Anschluss. They feared that Germany would swamp Austria with cheap goods. There was also a political faction of monarchists working against the Union. They hoped to restore the old traditions of the Habsburgs, even if under the form of a Danube federation.

The real supporters of the Anschluss movement were the Pan-Germans and the social democrats. They wished to strengthen Austria's position against the nationalistic bourgeois governments of the Succession States. The farmers and a group of industrialists also favored the Anschluss. Thus France at the Peace conference proved that only two parties in Austria favored union with Germany. Frenchmen even proposed a plan for separating Southern Germany from Prussia and joining this part with the culturally more similar Austria.

The heirs of the Austro-Hungarian Empire usually shared France's viewpoint in regard to the Anschluss question. Czechoslovakia with its 3,500,000 German minority population did not wish to be surrounded by a strong Germany. Neither did Italy care to see Germany too near the South Tirol, inhabited by





250,000 Germans.

England only mildly opposed the demands by Austria and Germany for a union. The Anschluss, according to the English viewpoint, must apparently not have been of any danger to the European balance of power. Lloyd George insisted at the Peace conference that there should not be put more Germans under Czech or Polish rule "than were absolutely necessary".<sup>1</sup> This fact should however not be over emphasized. Helping the Socialists in Vienna to achieve a union with Germany, which a large part of the Austrians seemingly did not want, was not a reason strong enough to cause England and the United States to come into conflict with France.

Lansing is supposed to have prepared a memorandum for use within the American Government, in which it was hoped that Austria shall become a small Archduchy within the Confederacy of German states.<sup>2</sup>

President Wilson revealed his opinion on the question when he, on board the "George Washington" told Seymour that the Anschluss movement was only of a temporary nature and would disappear as soon as Austrian economic stability had been restored.<sup>3</sup> This statement may have been true if a real economic restoration had been achieved, because the Austrians valued their independence more than is generally realized.

1. Germains, V. W., Austria of To-Day, 1932. P. 91

2. Kleinwächter, F. F. G., Die Anschlussfrage 1930. P. 51

3. Ibid. P. 51



If, after the war, Austria had been able to recover completely or in the same degree as other states, criticism of the failure of the peace conferences in regard to this problem would not have been so overwhelming. Under conditions existing ten years after the peace, a German historian and economist may be justified when he describes the Wilsonian Fourteen Points as mere empty phrases. Many of the promises that Wilson made were disregarded during the peace settlement. Negotiations were performed in secret. Germany was not allowed to participate. Only the German side of the Rhine was disarmed. Self-determination was only an expression without meaning, as in the prevention of the Austrian Anschluss movement. But people and provinces could not be treated like pawns in a game and be pushed around from one master to another. "Das nationale Sehnen muss**e** beachtet werden. Die Volker konnte man heute nur mit ihrer eigenen Zustimmung beherrschen und regieren." <sup>1</sup>

With Art. 80 of the Treaty of Versailles the victorious powers are said to have realized the principle of national self-determination, for which idea they were fighting the war. Yet Austria was denied the right of self-determination when she was forced to submit passively to the demands of the Allied Powers, because of her complete dependence on other countries for her food supplies.

Germany had been forced strictly to respect the independence of Austria. This independence was made permanent except with the

1. Leibrock, Otto, Deutschland im welt politischen Geschehen, 1932. P. 134



unanimous consent of the League of Nations. The union could thus be prevented by only one state, a fact making it almost impossible for a change to occur.

Austria submitted reluctantly to the provisions of the peace conferences. Renner expressed his thoughts in a public statement May 8, 1919: "Superior forces may bring about that our aim shall not be entirely attained today or even that it shall not be attained at all, but this aim remains our own as surely as we are Germans. No one can ever forget that we are Germans and consequently the children of the most unhappy nation in the world. It may be that an epoch of history is against us, but it will be proved, sooner or later, that the secular tie of blood is stronger than a day of history".<sup>1</sup>

French diplomacy, assisted by Austrian bourgeois blindness, selfishness and intrigues caused the suppression of the Anschluss movement at the peace conferences. The movement, however, did not fail completely. The desire for Anschluss remained alive in Austria. Even if the union seemed impossible to achieve at this time a large proportion of the Austrian people was still determined to continue the struggle. The Anschluss movement had only passed over to a new stage.

1. Graham, M. W., New Governments of Central Europe, 1924.  
P. 522





### Ch. III. Economic Conditions in Austria

#### After the World War (1914-18)

The moral, business and political depression that followed World War I was not only an Austrian phenomenon. It encompassed the world, but the tragic effects were particularly evident in Austria. That nation had become a head without its sustaining body. The suffering of its people was correspondingly severe. During the war the Allied people lost their luxuries, but in Austria the standard of living was reduced almost to starvation.

Germany was beaten and broken and shared the sufferings of Austria in many respects, but she was never reduced to the same utter helplessness, nor did she ever experience the same violent disruptions. To a far lesser extent, the Succession States shared Austria's fate. They ruled over comparatively wealthy lands and were more self-supporting.

Austria seemed to be the "sore toe" of Europe - the region where symptoms of economic disease were first evident. From there social and economic catastrophe spread throughout Europe. However, as the original focus of disruption Austria suffered most intensely. Almost every remedy advocated for inflation, unemployment, exaggerated social service and other economic and social disorders was tried in Austria and found to be ineffective. In vain the Austrians tried to convince Entente statesmen that their country was not able to exist alone. This failure was reflected in the attitude of the general public. Complete discouragement and despair finally abolished almost every effort





of the people to accomplish improvement on their own account.

The Austro-Hungarian monarchy had been like a Pan-Europe in miniature. It was a political and economic union of the small nations of the Danube basin. A unity that offered much greater security than any of the small nations ever could enjoy individually. The defensive force of a great power ensured peace between the different parts of the monarchy and kept watch over the security of all of them. Conflicts could be settled in the political field, not necessarily by arms. After the war the remnants of the Dual Monarchy were set up as different states. None of them was secure. Jealousy and mutual distrust forced them to support armies that were three times as large as the armed forces maintained by the former monarchy. This contributed to financial ruin. Previously, as a large political unit, these states could assert themselves in the European concert, now they were left to the mercy of the Great Powers.

The economic position in Austria at the end of the War was so serious that it is doubtful if Austria could have survived as a state without foreign aid. She was in a pitiful situation. She had not only lost large territories, but all hope of a livable future. She had little credit and no money with which to buy necessities. People were starving for lack of food. Machines were idle for lack of coal. Water-power resources were not yet sufficiently developed to eliminate the need for just importation. The systems of communication failed to function. Grain production in Austria was not enough for her own need, more had to be



imported.

These difficulties were due to certain weaknesses inherent in the Austrian economic system and to obstacles encountered in foreign trade.

Vienna was, before the war, the capital in a territory of 261,000 square miles with a population of 52 million people.<sup>1</sup> Austria was then a complete economic unit providing for its own needs. She was able to protect her agriculture from foreign competition. In fact she used all her own agricultural products without the necessity of seeking foreign markets. She possessed enough coal, timber, oil, metal and other raw materials necessary for her industries. Exporting little, she absorbed most of her manufactured articles. Truly she formed a perfect autarchy, economically not dependent on anybody but herself. She could regulate her own prices corresponding with production costs and supply and demand of her own resources and her 55 million consumers. When prices in the world market fell below production costs, she could keep her prices unchanged by raising the tariffs.

The peace-makers, according to Leibrock, not only failed to consider the right of self-determination, but they did not even understand the geographical, economic and the social conditions of the small nations when they drew the borderlines to favor their own strategical position.<sup>2</sup>

1. Germain, V. W., Austria of To-Day, 1932. P. 102

2. Leibrock, Otto, Deutschland im weltpolitischen Geschehen, 1932. P. 135



Vienna was made the capital of a reduced territory of 32,000 square miles with a population of 6,400,000. Austria had shrunk to a small, mountainous country situated almost exactly in the center of Europe. She lost her excellent frontage on the Adriatic and ceased to be a naval power. The new Republic of Austria had become a landlocked country like Switzerland. But mentally and physically she could not cope with a purely inland situation. She found her traditional trade routes cut off and her business blocked by Czecks, Yugoslavs, Rumanians and Magyars. Her railway system was not laid out for her new frontiers. With her wealthiest provinces amputated from her, she had become an "island" strategically situated in the heart of Central Europe on the direct route from Germany to the Balkans and the Near East.

Little wonder then that the deficit in Austria's trade balance was, according to the League of Nations, to a large extent due to the necessity for importing foodstuffs, equal to one third of the total imports of the country.<sup>1</sup> This deficit could have been reduced if the productivity of agriculture in Austria had been raised to the pre-war level, or even to a higher level. Agriculture furnished employment to nearly 50 percent of the population.<sup>2</sup> The Austrian farmers were peasant proprietors, they had land but no money. It was almost impossible to obtain long-term credits and an excessive rate had to be paid for short-term

1. League of Nations, Financial Reconstruction of Austria. Economic Commission. Report to the Council on the 17th Session. C. 757. 1925 II.
2. Dean, V. M. "European Efforts for Economic Collaboration". Foreign Policy Reports. Vol.VII. No. 12.





credits.

Domestic production of wheat, rye and sugar was not sufficient to meet the country's requirements. According to investigations made by Dr. Hemmet, Austrian Minister of Agriculture, the Austrians could, through a 5 - 10 percent increase in production get enough rye, oats and potatoes for their own need. Wheat, corn and maize still had to be imported.<sup>1</sup> This increase in production could have been realized by introducing modern methods of cultivation and by following a more rationalized agricultural process in general.

A relatively small part of Austrian land is arable. There are more meadows and pastures than cultivated fields. Agriculture in mountainous districts was limited to cattle breeding, dairy industry and forestry. After the war Austria imported a considerable amount of her foodstuffs, mostly from the Succession States. They regarded Austria as their principal market in spite of tariff barriers.

#### Austria imported:<sup>2</sup>

- 50 percent of Hungary's cattle and pig export
- 50 percent of Hungary's grain and flour export
- 60 percent of Jugoslavia's cattle export
- 33 percent of Jugoslavia's cereals export
- 59 percent of Rumania's wheat export
- 73 percent of Rumania's cattle export
- 42 percent of Rumania's pig export

1932

1. Leibrock, Otto, Deutschland im weltpolitischen Geschehen, P.157

2. Dean, V.M., "European Efforts for Economic Collaboration"  
Foreign Policy Reports. Vol. VII. No. 12.





Before the war these products could be purchased duty-free. Now they were subject to high tariffs.

The agricultural crisis in Eastern Europe of 1928-31 caused the agrarian states to demand regional conferences. The agrarian parties in Austria favored any possible approach to Germany, whose agricultural duties were much higher than those of Austria. These parties, being dependent for their existence on the maintenance of tariffs, were naturally strongly opposed to any schemes which suggested the need for their reduction.

Criticising the proposed Customs Union between Austria and Germany, Bitterman (Czechoslovakian economist) pointed out the fact that Austria probably would adopt the high protective German duties on grain in consequence of the union.<sup>1</sup> This would mean raising the price level of bread for the consumer and the price of fodder for the cattle-breeders and dairy farmers, who were interested in low prices on wheat and flour. The agricultural situation in Austria was not at this time (1931) a good one - but the same was true in all agricultural countries during the world crisis.

The development of agricultural production, however, after the war gradually made the situation more favorable. Immediately after the war Austria had to import milk and dairy products. A few years later she was able to export these products. Agriculture was developing into a more profitable source of livelihood before the crisis occurred.

1. Bitterman, M., Austria and the Customs Union, 1931. Pp 17-25.



To remedy this difficult situation Benes proposed that a Danube Confederation be set up, consisting of the Little Entente (Czechoslovakia, Rumania and Yugoslavia) and Hungary and Austria. The political purpose of this union was to draw Austria into the circle of the Little Entente and alienate her from Germany. From an economic view point this plan was without value. It would have ruined Austrian and Czechoslovakian agriculture by abolishing their high protective tariffs. Furthermore, it would not have given the three agrarian states sufficient markets. In order to place the surplus of the five states in the German, Italian and Swiss markets important industrial tariff concessions would have been necessary, thus placing the Austrian industry in a difficult position.

Perhaps preferential agreements concluded with any or all of the European industrial states, being the natural markets for this surplus, would have improved the situation. But lack of proper leadership, rivalries and interminable discussions without definite policies let matters slide to their tragic climax.

When part of the Dual Monarchy, Austria was the financial center of the Empire. Though herself relatively undeveloped as far as industries were concerned, she had large and varied resources of raw materials and foodstuffs within the Empire. The peace of Saint Germain destroyed century old industrial channels.

"Die Kohle trennte man vom Eisen, die Spindel vom Webstuhl, das Halbgut von seinen Endfertigungsstätten..."<sup>1</sup> Parts of the same

1. Leibrock, Otto, Deutschland im Weltpolitischen Geschehen.  
1932. P. 156





industrial enterprise, that had been absolutely dependent upon each other had now suddenly been placed within two or even three different, economically opposed states. Furthermore, Chinese walls had been raised between the raw materials in the Succession states and the manufacturing industries of Austria. Important branches of Austrian industry were crippled. Deprived of their sources of raw materials, they also lacked capital. While the former Austrian dye-houses and weaving industries fell in the hands of Czechoslovakia, the spinning mills remained in Austria. These mills created a surplus that Austria was unable to absorb, while her weaving capacity was inadequate to meet demands. Her economy automatically became more and more unbalanced.

Another example of industrial disruption occurred in the "luxury industries" - the manufacture of leather goods, clothing, porcelain and art objects. Since these articles had no adequate outlet on the domestic market, export was essential. But the demand for luxuries in the industrial states was not great. Scarcity of credits and the agricultural crisis prevented purchases from others, and Austrian industry languished.

This industry was almost purely a post-war phenomenon. Most of her former manufacturing centers were now in Czechoslovakia. Austria made the most of her industrial possibilities, and for a while, bravely carried on in spite of her handicaps. Efforts were made to tap her Alpine wealth in water-power. Half of it was going to waste. Through its adequate use, the railroads could be electrified and the manufacture of electrical apparatus





would be stimulated. To a remarkable extent these plans were accomplished until Austrian electrical appliance industry became one of the best in Europe. In 1925, the opening of the new hydro-electric works at Gratz, the Teigitsch-Werke marked a long step toward the exploitation of Austria's natural wealth of hydro-electric power. To expand this better utilization of water-power, the Austrian Government asked for permission to float a special loan for the electrification of railroads.<sup>1</sup>

This tremendous development of water-power since the war is a vivid illustration of the fact that "the creative energy of this people, previously dammed up by political preconceptions and antagonisms, is beginning to flow into new channels." <sup>2</sup> This is a new view point opposed to the popular exaggerated idea, shared by the Austrians themselves, that Austria is "an inherently poor country".

Austria's large forests were also an important factor in her industrial life. Her furniture manufacturing has always been known for its high quality. A typical post-war arrangement gave her the furniture factories, but her Slavonic oaks had to be imported from "abroad".

Austria's wealth in water-power and timber was, however, not an adequate substitute for her relative poverty in coal mines. She imported practically all her coal. She could not supply her

1. League of Nations, Financial Reconstruction of Austria. 25th Report by the Commissioner General of the League of Nations. C. 30. 1925. II.

2. Germain, V. W., Austria of To-Day, 1932. P. 238



mills with chemicals, fats, oil, rubber and wool without import. She had very little copper and petroleum.

An effort to reform the management of State industries was instituted by the government. State forests, salt mines and other undertakings were placed on the same level as private businesses, to free them from all political influences (if possible).<sup>1</sup>

A strong spirit of nationalism, with efforts to achieve self-sufficiency, hampered the marketing of an increased volume of goods by the erection of high tariff barriers. In the first two months of 1931 the deficit in the Austrian budget was greater than in the whole of 1930.<sup>2</sup> Numerous enterprises disappeared, traffic on the Federal Railways decreased, and incomes deteriorated in wide circles of the population. The earnings of the tobacco monopoly shrank considerably, denoting an increased impoverishment of the people.

For the purpose of improving conditions, gradually getting worse since 1929, preferential agreements concerning industrial export were advocated to assure Austrian markets for her manufactured goods. Probably a customs union would have been the best solution for Austria's steadily deteriorating condition. Voices for and against, again debated its merits.

Large sections of Austrian industry feared that a Customs Union would lead to greater foreign competition and emphasized

1. League of Nations, Financial Reconstruction of Austria. 25th Report by the Commissioner General of the League of Nations. C.30. 1925. II.
2. The Economist, London. April 18, 1931.





that with a Customs Union between Austria and Germany, Austrian industries were in need of "Zwischenzölle" to protect their own interests. Others claimed that the iron industry would gain from being incorporated into a large economic area. It would also be an advantage for Austrian timber trade to be a valuable member of timber starved Germany. On the other hand union would seriously effect the electrical low-voltage industry, while the furniture manufacturers could hardly compete against Germany. Austrian leather industry would suffer great losses and her sugar industry would collapse.<sup>1</sup>

During confidential discussions in Industrial clubs it seemed impossible to secure a majority in favor of the Customs Union. An important requirement was the safe guarding of certain Austrian industries. Chemical industry, knitted goods industry, building material and cement industry - they all demanded intermediate tariffs sufficiently high to protect Austrian interests.<sup>2</sup>

Dr. Schober saw the problem from a broader view point when he proclaimed that the "industries menaced by German competition were doomed in any case".<sup>3</sup> He saw the problem of "Free Trade versus Protectionism" not as a national problem but as an international problem. Possibly, Schober, as a great leader of European thought, came nearer the truth than many other statesmen and thinkers.

1. Bitterman, M. Austria and the Customs Union. 1931. Pp 96-104.

2. The Economist, London, April 18, 1931.

3. Germain, V. W., Austria of To-Day, 1932. P. 236





"Economic nationalism assumed greater proportions in the Succession States of the late Austro-Hungarian Monarchy than in any other part of the World", according to Einzig.<sup>1</sup> Every one of them tried to become an independent, self-supporting economic unit. New frontiers had been created and new tariff barriers erected within the former Habsburg Empire - a vast free trade area. Thus Austria, after revolutionizing and reorganizing her industries, found herself cut off from her principal markets.

"The disruption of Austria has deprived her of an important market and her peculiar dependence on imported raw materials of every kind and on foreign shipping has laid her open to special injuries from increase of world prices." <sup>2</sup> As a remedy for this situation Keynes proposed a Free Trade Union consisting of the whole Central Europe, of Turkey and the United Kingdom, India and Egypt. This union could in his opinion do as much for the maintenance of peace as the League of Nations. If all countries joined, this union would not mean the realization of Germany's dream of a Central Europe. If other nations remained outside it might be true that Germany would be left to enjoy all advantages of the union.<sup>3</sup> A solution of this kind would not, however, be easily realized.

"Kombination löst das Problem" states an article in Frank-

1. Einzig, Paul, The World Economic Crisis, 1929-1931, 1931.  
P.150.  
2. Keynes, J. M., The Economic Consequences of the Peace. 1920.  
P. 245.

3. Ibid. Pp 266, 267.



furter Zeitung,<sup>1</sup> examining the foreign trade in the Danube basin. The Succession States could not consume all the excess production of wheat and rye from the Southern States of the Danube area. Not even preferential tariffs would help. Germany has a need for grain that is greater than the whole excess production of the South Eastern States. An agrarian union of the Danube states including Germany, with special provisions for industrial tariffs in favor of Austria, was proposed as a solution. Austria should in any case be forced to turn her economic interests Westward because of the agricultural crisis in the Danube basin. According to a statistical review France had almost no economic interest in Austria.

#### Austria's Foreign Trade (1931)

Participation by:		In Austrian	
(In percent of the whole)		Export	Import
1.	Germany	18.4 percent	20.0 percent
2.	The Danube States	35.6 "	36.2 "
	a. Czechoslovakia	12.7 "	18.2 "
	b. Hungary	8.6 "	8.6 "
	c. Yugoslavia	7.4 "	4.0 "
	d. Rumania	5.9 "	4.5 "
	e. Bulgaria	1.0 "	0.9 "
3.	Italy	7.7 "	3.3 "
4.	Switzerland	6.1 "	4.9 "
5.	Poland	5.5 "	9.3 "

cont'd

1. Frankfurter, Zeitung, April 15, 1932



## Austria's Foreign Trade (Continued)

Participation by: (in percent of the whole)	In Austrian	
	Export	Import
6. United States	3.6 percent	6.5 percent
7. Britain	3.6 "	4.4 "
8. France	2.5 "	3.0 "

(Frankfurter, Feitung, April 15, 1932. P.6)

According to a British viewpoint Austria's trade with Germany was the most important part of Austria's foreign commerce.<sup>1</sup> Her import from Germany averaged 20-22 percent of her total export and Germany's share in her export was about 18 percent.

A Czechoslovakian economist <sup>2</sup> emphasized the fact, that the participation of Germany, Czechoslovakia, Italy, Yugoslavia, Hungary, Rumania, Poland and Switzerland in the Austrian trade balance showed by comparison that Austria's trade with the seven latter states was twice as large as Germany's participation.

Austria's trade in finished goods, in which industries the largest number of workers were employed, showed in regard to the seven states, a favorable balance of 201.1 million shillings and in regard to Germany an unfavorable balance of 238.3 million shillings. A large number of these industrial enterprises could not exist without the protection of customs tariffs. These tariffs, Zwischenzolle, would, in case of a Customs Union, also be needed for the protection of German agriculture and certain industries against Austrian competition. A union would, however,

1. The Economist, London, April 18, 1931

2. Bitterman, M. Austria and the Customs Union, 1931. Pp 32-36







be more unfavorable for Austria. Her production would be suppressed by the more efficient German industries. Extension of trade with the seven states was suggested as a more effective remedy.<sup>1</sup>

The difficulty connected with any Customs Union is the treatment of the most-favored-nation clause. Would all the nations, having treaties of this nature with the union states, claim the same preferential advantages?

The unconditional form of the most-favored-nation clause, extending to each of the contracting parties all privileges which the state may grant to a third state, even without equivalent compensation is now used by many nations. Exceptions to the most-favored-nation clause are: Customs Unions, such as the one established between Belgium and Luxemburg in 1921, and special preferential trade clauses, such as in the Baltic and Scandinavian treaties.

The growing pro-German orientation in Southeastern Europe caused anxiety in France. She feared that Germany would establish hegemony in Central Europe, when these states, previously acting as her satellites, now tried to find markets for their surplus grain in Austria and Germany. This would eventually result in a breakdown of status quo, one of the most cherished principles in French diplomacy. France emphatically objected to a Customs Union and fought it with every weapon at her command... especially loans, reenforced by commercial and military treaties.

1. Ibid. Pp 40-44.



While these diplomatic maneuvers continued, international and local trade and commerce contracted more and more, not alone in Austria but throughout Europe and gradually the entire world. Business was further hampered by uncertain customs duties. From this comparatively weak position Austria attempted to restore her markets by negotiations with the Succession States.

To help Austria in her reconstruction program the Economic Commission submitted to the Sixth Assembly a report concerning the tariff policy - adopted by the League of Nations, September 1924.<sup>1</sup> "Considering that the system of import and export prohibitions and restrictions constitutes a serious impediment to the free development of international trade", the Economic Commission wanted the Council to consider the possibility of an agreement between State members of the League and even between State non-members. This would be done "with a view to the final suppression of import and export prohibitions and restrictions." It was recommended that "provisions relating to the protection of the vital interests of the States shall not be affected." They also advised that cases of excessive tariff rates should be abolished and existing prohibitions should be reduced to a minimum. No fresh restrictions should be imposed. Prohibitions were not forbidden when the restrictions dealt with "national defense, public order and safety", when they were issued on grounds of "public health" for the "protection of animals and plants",

1. League of Nations, Financial Reconstruction of Austria.  
Economic Commission. Report to the Sixth Assembly,  
A. 46. 1925 II.



when they were imposed for "moral or for humanitarian reasons" or for the suppression of "improper traffic." Neither did they apply for the protection of "national treasures of artistic, historical or archeological value," for prevention of "unfair competition" and when they were established "in pursuance of international conventions regulating traffic of arms, opium," etc. To straighten out this confusion, a series of international conferences were held, such as the Tariff Truce Conferences, under the auspices of the League. But the practical result of these conferences was comparatively modest. They did, however, afford a method through which conflicting interests could be discussed and reconciled in a peaceful manner.

Remedies suggested for Austria by Czechoslovakia and the Little Entente were long term commercial treaties with her neighbors, enabling Austria to promote her export to her traditional markets. Germany suggested a Customs Union between Austria and the Reich, and Briand planned for a United States of Europe, still a distant and vague idea.

After the ratification of the peace treaty there were still 112,347 people unemployed in Austria and in receipt of relief payments.<sup>1</sup> The Austrian guarantees of compliance with the dictates of the League and its reconstruction agents were embodied in the so called "Law of Full Powers". This law gave the ministry undivided authority. One of the first acts under the law was a thorough reduction of state functionaries. This constitution. Germain, V. W., Austria of To-Day, 1932. P. 103.







tuted a great addition to the total of unemployed - but it initiated the lowering of prices and the rise of the Austrian crown, even though thousands of employees of the former Austrian bureaucracy were left without a livelihood.

The I L O explained in its information about unemployment that the main reason why economic recovery was hampered, was due to lack of confidence in the future. People just seemed to have lost faith in life and did not care to plan ahead. The League of Nations had in this respect a great task to accomplish - the restoration of confidence by using the machinery of the League to prevent any recourse to violence.

The report on Austria's economic situation to the League, September 18, 1925, shows a slight increase in unemployment since September, 1924, but this increase was a world wide phenomenon. In fact Austria's percentage of unemployment was equalled in Great Britain.<sup>1</sup>

Industrial and civil unemployment caused a decline in demand for food. The decrease of the purchasing power among the agrarian population in turn accentuated the industrial depression, - and the vicious circle gained momentum. Little wonder then that unemployment in Vienna in July, 1931 was 86,472 (13,800 higher than July of the previous year).<sup>2</sup> And still the number of unemployed continued to increase. Many business concerns in Vienna went bankrupt. Even in the provinces, the number of un-

1. League of Nations, Financial Reconstruction of Austria, 25th Report by the Commissioner General of the League of Nations. C. 30. 1925. II.

2. The Economist, London, July 25, 1931.



employed rose steadily.

To make matters worse, there was a marked decrease in public building activity. The municipality of Vienna curtailed construction, because its revenues were rapidly declining. Real estate was offered for sale everywhere in Vienna and its environment.<sup>1</sup> Next to the building industry with 119,510 unemployed, the Austrian iron and metal working industries were burdened with 55,700 unemployed.

According to a Czechoslovakian economist a Customs Union with Germany "would cause Austria to suffer from a still greater relative unemployment than it does today."<sup>2</sup> He emphasized that a union would make Austria's production more difficult. It would cause a general raising of the price-level, because, according to the same Czechoslovakian report, the average cost-of-living was now here as high as in Germany.

#### Average Cost-of-Living Index<sup>3</sup>

In gold parity	Austria	Germany
1929	111.3	153.8
1930	111.3	147.3

This rise in the cost-of-living in Austria would draw her away from her markets and the consequence would be increased unemployment.

Vienna's gravest food crisis occurred after the war and not

1. The Economist, London, Sept. 5, 1931

2. Bitterman, M., Austria and the Customs Union, 1931. Pp 62-66.

3. Ibid. P. 48



while fighting was in progress. For four months after the armistice the allies maintained their food blockade of the Central powers. This added to Austria's already severe suffering. Many thousands of Austrian children had to be sent abroad to be fed and clothed. Most of them were transported to Scandinavian countries. To keep the proletariat busy at home, starving, freezing and unemployed Viennese were sent to Vienna Woods to cut down firewood.

Austrian statesmen begged the rest of the world to aid their starving country. They threatened that if no help came, the administration would collapse and Austria would be left a vacuum of anarchy, which no doubt would lead to an easy conquest by a foreign state. There were even rumors that Vienna might "go Bolshevik".

The only ray of hope and encouragement in these depressing conditions was supplied by the American Relief Administration. This organization undoubtedly saved thousand of children from starvation and death.

For the next six years Austria was actually kept alive by "artificial respiration" - partly by financial reconstruction under the control of the League of Nations and partly by American charity. It might be stated that her artificial respiration was necessary to offset her artificial isolation, which caused her to face greater problems than the rest of the world. No other country experienced the same paralyzing collapse of industry and banking, coupled with moral, mental and physical deterioration of her







population. Her people were bewildered by the new frontiers and new tariff barriers. They were slow in achieving the fundamental readjustment needed to reestablish a sound economy.

The disintegration of economic units caused rapid sinking in the prosperity level. These disintegrated parts failed to consolidate into a political unit. Lack of time and hunger, plus the immensity of the problem delayed the economic and political reconstruction that men tried to solve on purely nationalistic lines, whereas the real solution rested on international or even world cooperation.

The real question facing Europe centered on the economic existence of the numerous small European nations - especially those in the Danubian basin surrounded and isolated by their high tariff walls. The problem, that Austria to a certain extent had solved, now again faced European statesmen and their millions of followers. Subsequent history shows they were unequal to their task.



#### Ch. IV. Reconstruction Under the League of Nations and the Anschluss-movement.

As the Austrian economic situation became more and more difficult, new life was infused into the Anschluss-movement. The Allies, however, believed that the continuance of Austria as an independent state was necessary to the future peace of Europe. They could not tolerate a stronger Germany.

Finally, during the year 1921 economic conditions in Austria grew progressively worse. Threatened by economic ruin and chaos, Austria appealed to the allied governments, and declined to admit responsibility for all the errors of commission and omission of the old regime. The League sent a committee to Austria to investigate the situation. The hope of aid from the League brought encouragement to the desperate Austrian people. But for quite some time there was no apparent improvement in the situation. The Austrian crown sank daily lower in value, while inflation complicated matters more and more.

In spite of warnings against it, this terrible economic situation gave new impetus to the Anschluss-movement. The territories ignored the provisions of the Saint Germain Treaty and renewed their Separatist movements.<sup>1</sup> A bill for holding a plebiscite on the Anschluss was introduced in the Council. The Allied Powers protested vigorously and threatened to punish Austria if the bill was passed. The plan was dropped, but the provinces

1. Woolf L. "Austria and the Union with Germany" Contemporary Review June - July 1921. Pp. 824-31 Pp. 105-11.



could not see why this prohibition was applied to them.

This agitation for Anschluss in the provinces came to a head when the Tirolese Provincial Diet decided to hold a plebiscite on the question. In spite of denial from the Federal Government, they wanted to "consult the people as to their desire for union." Matters relating to the foreign affairs were, according to the constitution, withdrawn from the competence of the Provincial Diet. But the Tirolese Diet explained that this measure would not result in any action, it would only be done with the purpose of guiding the Provisional government in its future steps. The French Ambassador made a declaration to Chancellor Mayr on behalf of his government. He demanded that Austria live up to the terms of the Treaty of Saint Germain, and made it clear that if the Austrian government did not discontinue intrigues aiming at union with Germany, the French government would abandon its plans for helping Austria. The British and Italian governments supported this warning. But this allied action instead of retarding Austria's desire for Union, actually increased its tempo.

Demonstrations in Vienna became more frequent. An interpellation of the Pan-German People's party explained their opinion. There was no question of any intrigue. Was not Austria already declared to be a member of the German realm in two solemn constitutional laws? Did not Dr. Renner's report during negotiations express a unanimous hope for union? This union could not be permanently refused. The plebiscite was accordingly wholly







within the framework of the peace treaty. The objections of the Allied Powers - especially France, aroused the feeling in Austria that a union would be the only worth while improvement in their wretched existence. According to this party, Germany was not responsible for the union movement. The Austrian people were not influenced by foreign pressure. The Anschluss-movement had "arisen simply from the need of the Austrian population, which is seriously menaced in its vital interests." <sup>1</sup>

During a debate in the National Council Chancellor Mayr expressed the attitude of the Austrian government. He explained that assistance from foreign powers was absolutely necessary to enable the reconstruction of Austria. The government had a right to appeal to the League of Nations for permission to unite with Germany - but the League could not possibly decide about union and undertake rehabilitation at the same time. Austria, he maintained, should try first to improve her condition with the assistance of the League. If the League was unable to promise help for essential reconstruction, then the government should not hesitate to adopt the second legal method, allowed in Art. 88 of the peace treaty. Otherwise, "our country must collapse entirely". His speech was followed by loud applause.

Socialist Deputy Bauer explained that the French declaration was "an extraordinary encroachment upon our sovereignty." The Austrian right to self-determination was forbidden during the peace negotiations - now, they felt, even free expression

1. Ibid. Contemporary Review. June 1921.



of opinion was denied them. One favorable result of the plebiscite agitation was that all Europe became aware of the immense majority in Tirol in favor of the union. The Entente had been given "the opportunity to demonstrate before the whole world their respect for national freedom." But even if France and her Allies could prohibit the expression of the will of a free people "they can never turn the course of history with such prohibitions". Loud applause greeted this statement from Deputy Bauer, who continued by assuring his listeners that even if the union were not accomplished now, Austrians should hold themselves ready for future opportunities. He called the Austrians, who wanted to remain separated from Germany and reestablish former alliances "internal enemies". They failed to realize, he claimed, that "our road can lead only to Germany and not back into any kind of Habsburg conditions."

At the height of demonstrations in Vienna, a group of professional organizations adopted a resolution stating that Austria was incapable of independent life. Credits, they insisted, brought only temporary relief. Repeated disappointments had resulted in loss of faith in the Entente. The people now demanded self-determination.

Chancellor Mayr, begging for time, pointed out that Germany herself was "subject to terrible coercion" and advised the people to "have patience for a few more weeks", while they still were dependent on foreign help for food supplies. On April 24, 1921 the Tirol plebiscite was held with 98.5 percent of the 134,318



votes cast in favor of union with Germany.

A similar plebiscite favoring union was held in Salzburg on May 29, in spite of protests from the Federal Government and the Allies.

A government crisis occurred and Schober became the Premier. The situation had now become so desperate that any help was welcome. The Treaty of Lana between Czechoslovakia and Austria was signed December 1921. Czechoslovakia extended to Austria a moderate credit for the purpose of putting commercial intercourse on a more normal basis. In return, Austria pledged friendship and neutrality in case of war. This treaty offered no great advantages to Austria, but the Allies strongly approved this orientation away from Berlin, in favor of Prague and a possible Danubian Confederation.

Austria's new master was not the League or the Reparation Commission but Czechoslovakia. The Lana treaty harmed the Schober government now maintained in power only as long as foreign credits were available. The Pan-Germans could not forgive him for this action.

After a year, the Schober ministries of "watchful waiting" were replaced by Ignatz Seipel, a young Jesuit priest. He assured the German Nationalist leaders that Austria would not surrender her independence to foreign powers - and thus secured their firm support for his projects. The life of a Cabinet seemed to depend on how long an agreement with the Pan-German Party could be maintained.







Anschluss demonstrations became more insistent and more frequent, as Austrians came to realize that their country could not exist as an independent economic unit. Most of them would rather join Germany than a Danubian Confederation. With this fact in mind Seipel went on his mission to Prague, Berlin, London and other European capitals with the purpose of coming to terms with Austria's creditors. He told Lloyd George that if no help could be assured "the financial problem has assumed a highly political complexion; it has brought on the scene the Central European problem," involving the very existence of Austria as an independent State.<sup>1</sup> Seipel threatened the great powers with Anschluss, in spite of treaties, if nothing was done. A bankrupt country was shaking her fist at Europe's face.

Finally the League of Nations became aware of the seriousness of the problem. Instead of merely expressing pious sentiments, the League realized that action was called for and proceeded accordingly. Austria's violent reaction to blind coercion had actually started a counter action. This incident proves the old saying, "God helps those who help themselves."

As a result of all this violent agitation, the Geneva Protocol was signed Oct. 4, 1922.<sup>2</sup> This helped to clear the political horizon. The guarantor states - France, Britain, Italy and Czechoslovakia - promised to give Austria reconstruction

1. Germain, V. W., Austria of To-Day, 1932. P 151

2. League of Nations, The Restoration of Austria, Geneva Oct. 4, 1922. P. 39



loans. They declared, in the Protocol, that they would respect the territorial independence, integrity and the sovereignty of Austria. Austria renewed her promise given in the Treaty of Saint Germain, not to relinquish her political independence and never to surrender her economic independence.

The bourgeois parties in Austria voted in favor of ratification of the Geneva Protocol, but the Social Democrats began a tremendous campaign against Seipel and accused him of having sold out his country to foreign capital. At this time Germany was so involved with her own problems, that she was unable to come to Austria's aid.

In December of 1922, Dr. A. R. Zimmerman of Rotterdam, the Commissioner-general, put the reconstruction scheme in force. Under the pressure of a foreign commissioner general the Austrians had to go much farther in eliminating doles and subsidies and in cutting down the number of officials, than would have been the case if the control of the reconstruction program had been left in the hands of native party-officials.

Before the loans began to flow in, the government, for three months, practically lived on credits and the hopes aroused by the Geneva convention. Austria printed new notes without any more security behind them than the public confidence. With the currency at last stabilized, Austria realized how terribly poor she had become.

From 1922 to 1926, Austria was so occupied with reconstruction, that Anschluss was temporarily forgotten. But in connec-



tion with the Ruhr occupation in February 1923, Austrian expressions of sympathy for Germany were numerous and pointed. The collapse of the German economic system almost coincided with the improvement of Austria's economic life. French occupation of Germany's richest mining district, heavy reparation payments and a reckless issue of paper currency, pushed Germany nearer Communism than Austria had ever been.

While Germans struggled with their own bitter problems, Austrians became accustomed to look upon foreign credits as a sovereign remedy for every economic ill. They replaced the earlier panacea - Anschluss with Germany. The assistance rendered by the League was in the nature of temporary aid or emergency relief to enable the population to live while the life of the nation could be re-organized.

Two League of Nations experts, Layton and Rist, spent seven weeks in Austria in 1925 to investigate conditions first hand. Their report, dealing with Austria's "capacity to live" (Lebensfahigkeit) was very optimistic as to the possibility of ultimate recovery.<sup>1</sup> They found, that thanks to the initiative of the manufacturers in adapting their products to new marketing conditions, industrial production had increased since 1922. Industrial machinery had been modernized. Railroads were put on a paying basis, with part of the railways electrified. This cut down the importation of fuel. Production of agrarian goods, es-

1. League of Nations. The Economic Situation of Austria.  
Report presented to the Council of the League of Nations  
by W. T. Layton and Charles Rist. C.440 (1) M.162 (1) 1925 II.







pecially milk and vegetables, had also increased. The budget was balanced more speedily than was thought possible in 1922. In 1923 the budget showed a deficit. But the budget of 1924 showed a surplus, which was devoted to covering a substantial part of the capital expenditures. Since the League of Nations' reform scheme was initiated in the Autumn of 1922, the Austrian currency had been stable. This economic progress afforded the Financial Commission an opportunity to congratulate Austria. The excellent results had gone beyond their expectations.

The work of financial reconstruction was now nearing its end. Yet only one of the problems had been solved. There remained an economic problem even more complicated than the one of finance and currency. The Layton and Rist report showed that Austria possessed "all the necessary resources and has made remarkable progress during the last few years. Much still remains to be done in that sphere, however, as regards both the improvement of conditions and the development of markets."

In spite of these favorable developments, Austrian unemployment was increasing. This was due to limited markets and to the introduction of more economical methods in industry, trade and banking. However, the real difficulty revolved around the finding of markets.

Recommendations were made to improve Austrian industrial production to enable their products to compete with those of other countries. The Succession States were advised to conclude commercial agreements among themselves. Other states were asked



to facilitate Austrian production and trade. Preferential tariffs were suggested, but no concrete proposals were made along this line. Unfortunately, these recommendations remained a dead letter.

Though the League failed to solve Austria's industrial difficulties, when its control terminated in June 1926, it could point to the stabilization of currency and a balanced budget.

The financial reconstruction of Austria under the auspices of the League of Nations is often mentioned as one of the most worthwhile examples of co-operative international effort. It has been said in regard to Austria that "in all history of modern Europe no orderly country had ever sunk into such a quagmire of wretchedness because of fiscal inflation, yet in no other has international financial reconstruction been so successfully attempted".<sup>1</sup> While Austria economically remained under League control it was possible for her to preserve her sovereign rights in a way which would have been impossible under the financial protectorate of another country.

This removal of the financial control of the League of Nations revived the Anschluss-movement. It was thought when Germany became a member of the League that something definite might be done about the union. Austrian leaders now expected further collaboration with Germany within the League of Nations.

Methods of cultural and legal cooperation were instituted

1. Graham, M. W., New Governments of Central Europe, 1924. P.195



between Austria and Germany. This procedure of adaptation (Angleichung) included standardization of laws and judicial methods of administration, common educational organization, concessions in regard to commercial privileges, the simplification of passport regulations and other steps of unification within the two countries, without calling it Anschluss. The Austro-German Arbeitsgemeinschaft and a similar Volksbund had been organized in 1925. These groups concentrated on propaganda for the Anschluss. The two countries, having a common language and education, found few legal difficulties in economic cooperation.

According to the Minister of Justice of the German Reich, the Union could not be prevented indefinitely, even though its realization depended upon the unanimous consent of the League. In his opinion the preparatory steps to standardize conditions in Austria and Germany were very important. The Anschluss should gradually be realized in a spirit of European conciliation, so that when the two countries officially joined each other the declaration of union would only be the recognition of an accomplished fact. The union should not be "interpreted as a manifestation of imperialism. It is merely the fulfillment of a democratic demand....the consumation of a right, long withheld." <sup>1</sup>

Anschluss demonstrations reached a climax, sentimentally, during the celebration of Schubert's musical festival in Vienna in July 1928. Numerous speeches were delivered about the com-

1. Koch-Weser, E., Germany in the Post-War World. 1930. P. 221.







mon German "blood brotherhood." Seipel and other political leaders, for a long time had stressed the sentimental bonds between Austria and Germany as being "bonds in a higher sense than political ones." <sup>1</sup> They claimed that Austria is as purely a German state as Saxony or Bavaria. Here it is well to remember that though the language of court, army and bureaucracy is German, the aristocracy is not a national German aristocracy. The Austrian population is a mixture of Germans, Slavs and Magyars. However, the Alpine Hinterland speaks only one tongue - German.

Lobe, the leader for the Austro-German Volksbund, spoke about "Wilson's vain effort to obtain right of self-determination for the conquered countries".<sup>2</sup> Dr. Friedrich Horz stated that "Austria's exports to Germany had increased much faster in the past few years than had her exports to the Succession States." <sup>3</sup> One of the main obstacles to the reconstruction of Europe, according to Dr. Hjalmar Schacht was the "policy of economic isolation practiced by many European states since the war." <sup>4</sup>

1. Ball, M. M., Post-War German-Austrian Relations. 1936. P.92.

2. Ibid. P. 71

3. Ibid. P. 69

4. Ibid. P. 96



Ch. V. World Disorder and Claims for  
Revision of the Peace Treaties.

By the close of the year 1929 Austria seemed to have solved the most difficult of the problems arising from the partition of her former Empire. Her most serious remaining problem - the establishment of adequate foreign trade, made her peculiarly vulnerable to the world-wide economic crisis. Every succeeding crisis revived the idea of union with Germany. The depression of 1929 was no exception.

The causes that disrupted world finance and commerce were just a large edition of the destructive influences that tormented the Danubian basin, and Austria in particular. Blake termed it "a relative over production of an important group of primary commodities." <sup>1</sup> The war industries had doubled the world's manufacturing capacity. He also proclaimed the crisis due to "failure to observe the conditions necessary for the successful functioning of the International Gold Standard." Monetary disorder and post-war over speculation were undoubtedly a contributing factor.

According to Keynes, previous to the World War I, currencies were maintained on a "stable basis in relation to gold and one another." <sup>2</sup> The flow of capital and trade was easy. That vast conflict, the second phase of which we are fighting today,

1. Blake, H., World Disorder and Reconstruction. 1932. P. 14.

2. Keynes, J.M., The Economic Consequences of the Peace. 1920 P. 15.



upset both gold and moral values. Another cause often mentioned was the influence of War Debts and Reparations. All this added to the load that finally brought on the climax to the crisis, the Wall Street crash.

Several factors gave ample warning of the coming debacle. The steady world wide increase of unemployment, and the enormous number of bankruptcies were the two most important signs of future trouble.

Another index to the coming storm may be found in the falling wholesale prices, illustrated in the following chart of Rotterdam price drops given in percentage of fall.<sup>1</sup>

Average per Year

Products	1930 Compared with 1929	1930 Compared with 1928	Dec. 1930 Compared with Dec. 1929
Wheat	21%	28%	44%
Rye	43%	53%	54%
Corn	38%	51%	44%

Return to tariff protection was one of the solutions advocated by Switzerland.<sup>2</sup> But these tariff barriers were explained as "das wesentliche Verteilungs hindernis auf dem Weltmarkt." <sup>3</sup>

Due to the fact that conditions in Austria were poor to begin with, unemployment reached staggering proportions.

1. Renatus, K. Die Zwölfte Stunde der Weltwirtschaft 1931. P.21

2. Berliner Tageblatt. March 5, 1931.

3. Renatus, K., Die Zwölfte Stunde der Weltwirtschaft.1931 P.47.





Until now, the deficit had been partly compensated by that "invisible export" represented by the spending of foreign tourists. But the crisis curtailed even that source of income. What to other countries was a "depression" to Austria became a complete collapse. Since other peoples were also busily endeavoring to help themselves out of this economic chaos, Austrians now found little sympathy wherever they turned. Desperately they went back to their old cure all - Anschluss.

Germany's response to this pathetic appeal from Austria can be understood only by a study of Germany's own economic vicissitudes. Following the depression of 1924-26, American loans caused a short-lived boom that ended with the collapse of 1927. The Reichsmark wobbled uncertainly, unemployment became acute, thus Austria was allowed to drift helplessly in the confusion of her own troubles.

The unexpected victory of the National Socialist party in 1930 caused an atmosphere of uncertainty. This political and economic uncertainty reached its peak in 1931 when a crisis in Germany's financial situation occurred. Lack of confidence caused investors to withdraw their credits both from Austria and Germany. Capital exporting countries restricted their loans. This resulted in a general shortage of capital. Banks failed. Business life was paralyzed.

At the conference of the reparation experts at Paris, Dr. Schacht referred to the territorial provisions of the Versailles



Treaty.<sup>1</sup> He stressed the importance of revising some of the stipulations of the Peace treaties. He pointed out that the basis of Germany's economic life needed to be fortified if the country's efforts to pay reparations were to be made effective. Germany, he claimed, had been deprived of her overseas reservoir and her domestic supply of raw materials was greatly reduced.

On the tenth anniversary of the signing of the Peace Treaty of Versailles, Germany prepared large scale demonstrations in protest against the treaty. Germany had a legal basis in asking for revision of the Treaty of Versailles, through Article XIX of the Covenant. Moreover, the Germans were absolutely convinced that they had a moral right to demand a revision of unendurable conditions. They pointed Wilson's view point that the purpose of the Covenant and Article XIX should be to provide for a machinery through which the terms of the treaties could be altered when conditions had been changed, or when it could be shown that injustice had been done. This was a provision for the peaceful settlement of international problems by discussion and consent.

If Article XIX provided for revision, there was, however, another Article in the Covenant altogether overshadowing the Revision clause. Article X assured status quo. On this clause France relied for her national security. French fear of a possible German aggression and subsequent threat to her security, vetoed any attempt to revise the treaty and strengthen Germany.

1. Wertheimer, M.S., "Revision of the Versailles Treaty".  
For. Pol. Ass. Vol V. No. 8. 1929.





In a speech delivered before the American Foreign Policy Association in New York, Mendelsohn Bartholdy advocated the revision of the Versailles Treaty as essential for a real and just peace in Europe.<sup>1</sup> This revision was not only demanded by Germany but by all of Central Europe as well. Some clamored for access to the sea. Others rectification of boundaries, all were angry and dissatisfied. All sought self-determination and more living space at the expense of others. The Little Entente, consisting of Czechoslovakia, Yugoslavia and Rumania, was bound to France with Defensive Alliances and non-aggression treaties, for the purpose of preserving the status quo and to prevent the restoration of the Habsburgs.

The pressure of France and her satellites to prevent the union of Germany and Austria, brought forth many proposals to alleviate the Central European distress. But this blind desire to maintain the status quo at all cost crippled the projects even before they were applied.

The effort by the League of Nations to establish a customs truce in 1927, failed mainly because France and her allies were unwilling to abandon their traditional policy.<sup>2</sup> This customs truce might have opened markets for some products, but would not have solved the agricultural problems of the Danube states.

1. Berliner Tageblatt, March 4, 1931

2. Dean, V. M., "European Efforts for Economic Collaboration".  
For. Pol. Rep. Vol. VII. No. 12. Aug. 19, 1931.



A number of Customs Unions were planned to amalgamate into a single large unit, territories with mutually complementary economic resources and needs. The Danube Confederation was again proposed by Czechoslovakia to prevent further economic crisis and the Austro-German Anschluss. Every economic question in Europe seemed to stir up a corresponding political controversy.

A series of international conferences were held 1930-1931 to establish a European Union in close collaboration with the League of Nations. The Commission of Enquiry for European Union recommended the enforcement of a customs truce proposed March 1930. Iceland, Turkey and the U.S.S.R. were invited to participate in the discussions over the agrarian crisis.<sup>1</sup>

Briand's European Union<sup>2</sup> proposed in his project memorandum of May 1930, outlined an organization of European states to solve European problems. Robert Cecil was unwilling to accept the usefulness of Briand's vague proposals to remedy existing unfavorable conditions. Though Briand deplored the erection of 20,000 km. of new customs barriers in post-war Europe, he saw no reason why local customs unions should be formed, even if regional understandings were recommended by the Covenant of the League of Nations.

Germany was immediately willing and ready to cooperate. "No country can feel the defects in the structure of Europe more strongly than Germany who, situated as she is in the centre of

1. League of Nations. Monthly Summary. Vol. XI. 1931. P. 84.

2. Stone, W. T., "The Briand Project for European Union"  
For. Pol. Rep. Vol. VI. No. 14. Sept. 17, 1930.



the continent, is specially affected by these weaknesses and their consequences. No country has a greater interest than Germany in the removal of these defects. The German Government is therefore very ready to cooperate in the solution of the problem and is willing to take part in an exhaustive discussion during the meeting of the League of Nations next Autumn" states a German document relating to the European union.<sup>1</sup>

A constructive policy for European reorganization was imperatively necessary for Germany and Austria. In order to safeguard the endangered political and economic peace of the continent, the European leaders were now anxious to erect on a wider European basis, an organization similar to the former Austro-Hungarian Empire. Briand's vague conceptions of a European Union were, however, too slow and unrealistic for Austria who required an immediate solution of her problems. This talk about a European Federation was instituted not only to take the minds of people away from the depression, but to safeguard France by discouraging Austro-German Anschluss.

The Anschluss, reasoned French politicians, was opposed to the spirit of Pan-Europe. First, they insisted, Austria and Germany should join a European Federation, then as federated states within the union, they could adjust their economic and political affairs. The only difficulty was the lack of this European Federation.

1. Ball, M. M., Post-War German-Austrian Relations. 1936. P.104.







Discussing the possibilities of Anschluss taking place upon the recommendations of the League of Nations, Graham stated that "even if a reunion with Germany becomes possible the economic interests of Austria in the Danube area will continue. It cannot be abolished without the abolition of Austria herself".<sup>1</sup>

Dr. Karl Janovsky in his treatment "Anschluss oder Donaufederation" believes that the economic Danube federation never can become a reality without the German Reich.<sup>2</sup> Austria promised that she never would join any political group which excluded Germany.<sup>3</sup> While Benes declared, in Berlin 1928, "Anschluss means war".<sup>4</sup>

To support their own obscure, selfish reasons that they dared not expose to world scrutiny, the European statesmen in power, consistently blocked every attempt to change existing conditions. Apparently the world can only make progress by shedding blood.

A revision of the peace treaties, most persons admitted, was necessary to help restore prosperity to Europe. But when it came to the actual accomplishment of this necessity, scores of excuses were advanced to prevent it. Never was the statement, that language was made to hide thought, truer than during the interminable discussions over the Danubian controversies.

1. Graham, M. W., New Governments of Central Europe. 1924. P.200.

2. Kleinwächter, F.F.G., Die Anschlussfrage, 1930. P. 214.

3. Neue Freie Presse. June 2, 1928.

4. Foester, F.W., "Germany and Austria: A European Crisis" Foreign Affairs. July, 1931.



## Ch. VI. The Vienna Protocol.

Though apparently long in coming, retarded by flimsy buttresses that gave way one after the other, disaster finally struck unhappy Austria. Schober was called to office as Chancellor at a most critical moment to face the collapse of the Bodencredit Anstalt, and the menace of civil war.

Referring to Schober's adventures in 1921, when he was the police chief of Vienna, and leader of the Pan-Germans, Dr. Otto Bauer wrote, "the bourgeoisie attempted so to twist events as to prove that the Vienna Police and Schober, their Chief, saved Vienna from Bolshevism".<sup>1</sup> When the Treaty of Lana was signed, during his premiership, he lost the support of the Pan-German Party, which acted as the balance wheel in the formation of Austrian coalition cabinets. This rapprochement with Czechoslovakia gave the Anschluss-movement a hard blow. In 1922 he was thrown out of office during a budget crisis. But now after seven years, he reappeared on the political stage stronger than ever, with a moderate and able cabinet.

Schober realized that it was useless to appeal to the great Powers for help, unless Austria herself was ready to set her house in order. At the same time, when Briand delivered his proposal for a European Union, Dr. Schober described his future commercial policy.<sup>2</sup> He emphasized that Austria could not wait

1. Germain. V. W., Austria of To-Day. 1932. P. 85.

2. New York Times. March 22, 1931



until Pan-Europe was realized. He keenly noted that so far only good intentions had been voiced. There were no concrete proposals, no treaties, no concessions... just endless promises and talk. Austria needed an immediate solution. He proposed that regional agreements should take place between agrarian and industrial states with complementary economic interests. This plan was welcomed by Curtius,<sup>1</sup> the German Foreign Minister.

Schober offered Reciprocal Free Trade to Czechoslovakia, Yugoslavia and Hungary, but the offer was declined by all. First among the European leaders openly to blame the tariffs as the root of their troubles, Schober suggested a remedy. In his opinion, better organization of European economy must begin with regional agreements.

In March 1931, the German Chancellor Brüning had planned to visit Vienna. He was, however, detailed and Foreign Minister Curtius and the Secretary of State Punder, went in his place. Thus was born the Vienna Protocol.

On the 3rd of March they arrived in Vienna. "die Wiener Neuesten Nachrichten" informs us that "this visit is more than just a formality between friends - it is a decree of fate against all oppositional powers who are trying to prevent two peoples, that belong together, from working together."<sup>2</sup> Others went so far as to say that this meeting might relieve all of Europe's

1. Dean, V. M., "European Efforts for Economic Collaboration"  
For. Pol. Rep. Vol. VII. No. 12. Aug. 19, 1931

2. Berliner Tageblatt. March 3, 1931.





suffering. Curtius had a difficult task to accomplish. The Austrian and German newspapers were filled with news items about this significant event. Curtius visited the German treasure chamber in which the archives from the old German "Kaiserreichs" are kept. The press gave a glowing description of German solidarity - "eine hohe Einheit ist in diesen Dingen."<sup>1</sup> "Die Arbeiter Zeitung" writes, "that even if Anschluss is not possible today, we can always work for closer economic relations, with the purpose of bringing the two countries nearer to a common political, economic and judicial unity."

According to German reports, some days later, the visit to Vienna seemed to have been very satisfactory.<sup>2</sup> Some weeks later the world-press devoted large sections to discussions on the Austro-German Customs Union proposal.

Austria welcomed the project, but hoped that the plan would not be misunderstood. They explained such a union was only the first step in the formation of the Pan European Union proposed by Briand.<sup>3</sup> No one would be excluded from the union. Headlines in the Austrian Press stressed that the independence of both countries would be unimpaired. Commercial treaties previously made with third states would in no way be changed. The customs union was to be purely economic. There would be no political consequences whatever - thus allowing the union to be

1. Berliner Tageblatt. March 3, 1931

2. Ibid. March 7, 1931

3. Neue Freie Presse. March 21, 1931



put into force without any difficulties.

The complete text of the Vienna Protocol was published March 23.<sup>1</sup> The proposal consisted of twelve articles. The first assured that absolute independence would be preserved and obligations to third states would be respected. This was a contract initiating a new order by regional agreements. Similar agreements could be made with other states. Article II contained provisions for later agreement upon customs laws. Both parties should agree when laws were to be altered. According to Article III no duties should be levied during the duration of the union, both governments should decide what intermediate tariffs were advisable. Article IV treated provisional regulations of "turn-over taxes" and monopolies. Customs administration should be separate but execution of the laws should be uniform according to Article V. Article VI described methods of collecting duties by the respective countries, separately. Special costs should be deducted and the total sum divided according to a fixed quota between the partners. Special national rights should not be infringed. Article VII states that no import or export transit prohibitions should exist between Germany and Austria except as required for protection of public safety, etc. (A detailed list follows). According to Article VIII a treaty will regulate rights of "natural and juridical persons". Rights to conclude treaties with other states is provided for in Article IX. These treaties with a third state should not violate the purpose of

1. New York Times. March 24, 1931.





the Protocol or conflict with its content; as far as possible they should be negotiated jointly. Article X wished to see other commercial treaties regulated according to this treaty. An impartial arbitration commission representing both countries should settle disputes arising from interpretation and application of treaty stipulations. Decisions should be binding. With a six months' notice the treaty could be terminated. Special provisions in regard to ratification and termination are given in the last article.

The treaty seemed to have been constructed with the thought of preserving Austria's independence. Article IX was included chiefly to guarantee this independence. It did not establish a closed economic system, since the parties expressed their willingness to enter into negotiations with third states for similar agreements. There was no provision for complete free trade. Duties were removed only from some commodities. Internal duties, "Zwischenzölle", were to be used until conditions had been adjusted. Austria even undertook to furnish receipts of her tobacco monopoly and her customs as securities for the Reconstruction Loan of 1923.<sup>1</sup>

The Vienna Protocol was described by its authors as purely economic in character. But it was an entering wedge; for economic union suggested political cooperation and eventual absorption of Austria into the Reich. With a jealous eye France and the Little Entente regarded this as pre-nuptial engagement. They

1. Dean, V.M., "European Efforts for Economic Collaboration".  
For. Pol. Rep. Vol.VII. No. 12. Aug. 19, 1931.



again revived stories of a United States of Europe as an effort to prevent closer contact and final marriage of Germany and Austria. French statesmen failed to grasp the true import of the Vienna Protocol. They did not or would not see the solution of economic problems through a bilateral agreement.



## Ch. VII. Opinions in the World Press.

According to press reports, it appears as if France and Czechoslovakia were more interested in the Customs Union question than Austria and Germany. Paris and Prague already feared the development of Central Europe under German domination. France became alarmed over this gravest act of Germany since the war.

The socialistic "Soir"<sup>1</sup> said that the proposal caused wild excitements among the adherents of the Versailles Treaty. It proved to be a very painful surprise for France. This was a serious violation of the status quo. France appeared bewildered by the sudden turn of events. Her carefully planned system of loans and alliances was tottering and about to crash. Almost all her leaders voiced alarm and fear. Sauerwein in the "Matin"<sup>2</sup> was convinced that the plan was the first step towards Anschluss. Herriot supported this opinion,<sup>3</sup> seeing it only as an excuse for a political union.

Paris firmly believed that the union initiated an attempt to establish a Mittel-Europa along the lines proposed by Friedrich Naumann and other German writers. The development of the Prussian Zollverein was recalled and now a similar outcome was prophesied. The statement that Germany and Austria were prepared to conclude similar treaties with other states stimulated rather than quieted French opposition.

1. Berliner Tageblatt. March 23, 1931.

2. Neue Freie Presse. March 23, 1931.

3. Berliner Tageblatt. March 26, 1931.





Some day "when Europe is absent minded or occupied elsewhere, Austria might proclaim her adhesion to Germany", M. Francois Albert warned the French Chamber of Deputies in 1928.<sup>1</sup> But the violent storm of criticism, charges and accusations finally subsided. Briand's diplomatic skill made the most of an awkward situation. The same day Curtins went to Vienna, Briand declared that all danger of Anschluss had disappeared. Three weeks later, Briand contented himself with condemning the manner in which the Vienna Protocol had been announced, as a fait accompli and as a challenge to the plan for European Union.

The plan which had been advocated and discussed for years, when finally applied caused a furore, as though unexpected and never heard of. Briand was blamed for not anticipating this step. The Customs Commission of the French Chamber of Deputies protested against the Union on economic grounds, and presented a document to Premier Laval asking him to do everything to prevent the conclusion of the Union. Laval answered with a speech lauding the Versailles Treaty. He was applauded by Pertinax and the Conservative Press.<sup>2</sup>

Briand defended his attitude in the French Senate by pointing out, that Austria, under the peace-treaty, had no right to conclude the Vienna Protocol.<sup>3</sup> But, he admitted that France could not be satisfied with only criticism of the plan. France

1. Wertheimer, M. S., "Revision of the Versailles Treaty"  
For. Pol. Ass. Information Service. Vol. V. No.8. June 26  
1929.

2. Berliner Tageblatt. May 4, 1931.

3. Dean, V.M., "European Efforts for Economic Collaboration"  
For. Pol. Rep. Vol.VII. No. 12. Aug. 19, 1931.



herself was not altogether free from blame. Her Eastern European Allies were starving while France only paraded her strength and her wealth, throwing a few millions here and there to keep them happy. A constructive counter proposal - a French plan had to be made. The vote of confidence of 419 to 43, at the end of the debate, was a great victory for Briand.

French nationalists said that the move might not have been made if Mainz had been held.<sup>1</sup> They, according to "Ordre" were ready to occupy the Rhineland, just as Clemenceau had done before. Pertinax in "L'Echo de Paris" represented an extreme view.<sup>2</sup> He demanded that economic pressure should be used to abolish the work of Schober and Curtius, - or if needed, the withdrawal of French credits.

More moderate views were voiced in the socialist press, especially the "Populaire" and the "Republique". Leon Blum admitted that the French Press was too excited.<sup>3</sup> He was convinced that the realization of this plan would not lead to Anschluss, but to a United States of Europe. He hoped that the plan would be supported rather than condemned. "Oeuvre" insisted that this alarming union was caused primarily by the French commercial policy.<sup>4</sup> Regional agreements, this newspaper admitted, would be the best way of achieving a European Union.

The government at Prague was also greatly disturbed by this

1. Neue Freie Presse, March 23, 1931

2. Berliner Tageblatt, March 24, 1931

3. Berliner Tageblatt, March 24, 1931

4. Neue Freie Presse, March 23, 1931





Customs Union. The official declarations from Dr. Benes came first when the rest of Europe already had expressed its opinion. Meanwhile "Narodni Listy" reminded Prague that the government had, some weeks ago, issued a warning that Austria and Germany would present to the world a fait accompli.

Dr. Benes, in his speech of April 23rd, stressed the fact that the Customs Union was eminently of a political character. No one really believed that this was a purely economic deal. Dr. Benes now feared that his country would become isolated, but denied that the policy of the Little Entente was merely an instrument of French policy. It was only an instrument of equilibrium, he insisted, and an upholder of status quo in Central Europe. He denied that his proposal for a Danube Federation was an attempt to lure Austria into joining a combination directed either economically or politically against Germany or any other country. Benes believed that the granting of exclusive advantages to one state threatened Austria's independence. He recalled that no country joining the German Zollverein could maintain its sovereignty. He also denounced the union as a violation of the most favored-nation treaties - the keystone of the European economic system. This union would make a European solution of the crisis impossible and would lead to a violent economic war. This was not a regional agreement in the Geneva sense. In fact it was not, according to Benes, a Customs Union at all since it provided for internal duties. For Austria this kind of a union would mean "raising the cost of living, increased unemployment, increased



dissatisfactions of the middle classes and of labor, and new social unrest." 1

Austrian duties would be raised to the German level through this "Vertrag zur Angleichung der zoll-und handels-politischen Verhältnissen". Germany, according to another Czechoslovakian economist, would not reduce some of her duties on grain, at this time the highest in Europe.<sup>2</sup> Finally, Germany could put serious obstacles in the way of goods coming from states not joining the union. Normal transportation could be disturbed by artificial means. The railway system of Germany and Austria would be united as a natural consequence of this Union. High freight rates could be charged for the transport of foreign goods over short distance and cheap rates for transport of home goods over long distance. Protectionist tendencies could thus be made even more effective when expressed in railway tariff discriminations than in customs duties. This kind of protectionism is used in many countries and would most certainly be a part of the Austro-German program.

As a result of previous efforts at mutual economic adaptation between Austria and Germany, a railway traffic order had been agreed upon and came into force in October, 1928.<sup>3</sup>

According to Bitterman's "Austria and the Customs Union", this union would affect bonds between Austria and non-German

1. Benes, E., The Austro-German Customs Union Project. 1931. P. 41.
2. Argus, The Economic Aspect of the Austro-German Customs Union. 1931. Pp. 10-23.
3. Argus, The Economic Aspect of the Austro-German Customs Union. 1931. P. 28.



Central Europe. Trade via Hamburg would be promoted. This would seriously affect Trieste, Austria's nearest seaport. Swiss railroads would lose a large part of their transit traffic.

Bitterman was certain that the union would reflect unfavorably on the entire economic life of Europe. Czechoslovakia, standing only second to Germany in her trade relations with Austria, would suffer the most. Polish and Czechoslovakian coal would be unable to compete with German Ruhr coal on the Austrian market. The economic existence of the Eastern states would be menaced by economic pressure from Germany and this would force them either to form an economic union of their own, or join with Germany.

According to a German economist, twenty-five percent of Austria's unfavorable trade balance in 1930 was due to her dealings with Czechoslovakia. "Von Anfang an war das Streben Prags darauf gerichtet, sich das österreichische Absatzgebiet zu sichern, ohne entsprechende Konzessionen zu gewähren."<sup>1</sup> Czechoslovakia according to this statement tried to make Prague and Pressburg financial centers at the expense of Vienna.

Czechoslovakian statesmen and economists, were unanimously of the opinion, that the union would not help Austria. Benes, Argus and Bitterman were certain that before mutual adaptation could take place, many Austrian industries would perish and many would be taken over by Germany. Moreover, Austria would lose a large part of her foreign market in favor of Germany. Banking

1. Leibrock, O., Deutschland im Weltpolitischen Geschehen.  
1932. P. 162





and insurance business would decrease and become dependent on Berlin. They prophesied that unemployment would increase and the commercial importance of Vienna would decline - in favor of a greater Berlin. The world would be separated from Berlin and Vienna by higher tariffs. As for their own solution it was the same old story - Pan European Cooperation. The Czechs proclaimed this would result in permanent improvement. To begin with, they advised stabilization of industrial duties, followed by a gradual reduction of customs duties, and leading to a real "Angleichung" all over Europe. The improvements that Germany was endeavoring to achieve in Central Europe, should be applied to the entire continent.

To this, many influential Germans agreed. "Verwirklichung der Grundidee der Vereinigten Staaten von Europa" promised Dr. Curtius as Germany's goal. He explained in the "Matin"<sup>1</sup> that Germany was the state most interested in the realization of Pan-Europe, and was ready to work with all her power for the peaceful unification of Europe. He referred to the failure of former attempts for economic organizations in a continent where countries are separated from each other not only by one, but by dozens of Chinese walls. Little improvement, he stated, could be accomplished through collective agreements. It was very difficult, almost impossible, to satisfy so many countries with their different interests in a single treaty, at least in such a serious economic crisis as the present. A European union, according to 1. Neue Freie Presse. March 23, 1931.



Dr. Curtius, could take place only after a long preparation and much labor. Briand's program would eventually be accomplished if regional agreements first were concluded. The different spheres of interest could later on be combined to one large union. The Vienna Protocol was planned to help realize Briand's Pan-Europe. Curtius reiterated, "einer Idee , die nicht nur die wirtschaftliche Einigung, sondern auch die Konsolidierung des Friedens in Europa und in der Welt zum Ziele hat." But few men in the countries immediately surrounding Germany believed this statement or followed his reasoning. However, editorial writers of England and America in many instances supported Germany's viewpoint.

The idea of an Austro-German Customs Union was said to have originated in Austria.<sup>1</sup> But another version said that the proposal was made by Germany to use the "prospect of an economic union with Austria as a bargaining point in future negotiations with France".<sup>2</sup> Some of the 21 million marks, provided by the German budget, and admitted by Stresemann as used to extend "das Deutschtum" outside the Reich, may have had something to do with this union proposal.<sup>3</sup> This detail, is, however, not of great importance.

The Vienna Protocol was hailed by the German Press as a landmark in the history of German diplomacy. It was the first

1. Berliner Tageblatt. March 21, 1931.

2. Dean, V.M., "European Efforts for Economic Collaboration"  
For. Pol. Rep. Vol. VII. No. 12. Aug. 19, 1931.

3. Wertheimer, M.S., "Revision of the Versailles Treaty."  
For. Pol. Ass. Information Service. Vol. V. No. 8. June 26, 1931.





independent step Germany had taken since 1918. France was blamed in a German editorial by Dr. Max Jordan for trying to maintain herself as the dictator of Europe by continuously referring to the Peace Treaty of Versailles.<sup>1</sup> She could dominate Europe only as long as Austria and Germany were separated. Dr. Jordan insisted that France objected to the union only because she feared a greater Germany and the resulting shift in the balance of power. German youth refused to be suppressed by the burdens of a past war and rebelled at the idea of continued subjugation. Many Germans even questioned France's sincerity in her counter proposals. They doubted that these plans were realistic enough to be used as a basis for further negotiations.

However, even in Germany some voices were raised against the Protocol. Liberal organs like "Berliner Tageblatt" and "Frankfurter Zeitung" were slightly impatient with Germany's procedure and the abrupt announcement of the proposal. The "Reichspost" thought that the German press ought to have been more reserved in its statements.

Professor Franz Eulenberg (Berlin) admitted Germany's need for world trade, but denied that the Customs Union would give such excellent results as described by certain experts.<sup>2</sup> He warned that the union would not provide Germany with a greater market. He advised Germany to encourage commercial relations with the whole world. "We need above all most-favored-nation

1. Berliner Tageblatt. May 15, 1931.

2. Bitterman, M., Austria and the Customs Union. 1931. P. 90.



treaties".

Certain optimists in Vienna, who thought the union would be realized speedily, on later consideration became more sober. Dr. Schober gave his opinion in an interview to foreign correspondents<sup>1</sup>. He stated that the proposed customs union would improve the conditions of Central Europe and stressed that the project certainly was not illegal. While drafting the regulations of customs agreement, Curtius and Schober constantly bore in mind the stipulations of the peace treaties and the first Geneva Protocol. Schober also hoped that Germany and France would work together and not fight each other.

Austrians did not favor this proposal unanimously. It was opposed by certain Austrian industrialists who feared German competition. Austrian industry was small-scale and relatively undeveloped - Germany's was large-scale and highly organized. To offset this handicap certain duties should be maintained to allow Austrian industries involved to make necessary adjustments. Austrian Communists were opposed to economic union with Germany, as an invention of German capitalism, and the Monarchists opposed it because a union with Germany would give the death blow to any hope of restoring the Habsburg dynasty.

When the first wave of emotionalism had subsided in Austria, voices were heard denouncing the Customs Union as of doubtful wisdom and premature.

1. Neue Freie Presse. March 31, 1931.



The Austrians feared that their beloved Vienna with all her great traditions would be reduced to the status of a German provincial town. Vienna, resembling Paris more than Berlin, is a cosmopolitan capital with a strong Jewish influence in commercial and journalistic circles acting as an internationalizing factor. Vienna's large population depended on a complicated system of banking, trade and industry, that was geared to the requirements of a great nation. With the Empire cut off, the great capital was not adapted to little Austria.

Czechoslovakian commentators frequently pointed out that Vienna, in case of a Customs Union with Germany, would lose its importance as an independent, industrial and banking centre and would cease to be the headquarters of an independent economic territory.

The easy going Austrians disliked their sterner North-German cousins. They lacked the competitive spirit and the efficiency of Prussia. The Austrians during centuries of intercourse with the Balkan nations had developed a mental attitude more similar to the sunny and mellow civilization of the Mediterranean. An observer during the last war describing the contrast once said, "Berlin is optimistic but gloomy; Vienna is pessimistic but cheerful."

Many Austrians regarded the Prussians as stiff martinets. The strictly centralized German Government was disliked. On the other hand the matter-of-fact North Germans had little patience with the well-known "Gemütlichkeit" of the Austrians.





In studying the reaction of these two capitals, London and Washington could be compared. Most Englishmen might be in favor of reciprocal free trade with the United States, but few would agree to a political union in which their rights to manage their own affairs would be sacrificed. Neither would Americans consent if the tables were turned. Most civilized communities rebel at the conception of political subjugation. Austrians were no exception. They could not bear to see Vienna completely submerged under the domination of Berlin. However, it should be remembered that political union had not yet occurred. Still, many feared the consequences of commercial unity.

In spite of these misgivings and uncertainty about the future, the majority of the Austrians waited for a favorable opportunity to claim Anschluss.

Among Europe's small nations Hungary seemed to be the one most in favor of the Customs Union. Premier Bethlen had been informed about the project previous to its public announcement.<sup>1</sup> He said that Hungary eventually might adhere to this new economic combination.

Polish opinion was very skeptical in regard to the purpose of the Vienna Protocol. The adoption of this plan would considerably reduce Poland's favorable trade balance in relation to Austria. She was also afraid of losing her traditional friendship with France, when new hostile barriers were laid between them. An editorial in the "Kurier Poranny" took a neutral attitude. New York Times. March 22, 1931.



tude.<sup>1</sup> It reminded its readers that Poland had no right to apply pressure on Austria. "Every man is the architect of his own fortune and should be left alone." Warsaw tried hard to maintain good relations with all of Europe.

Mussolini hesitated to express his opinion. This caused the German press to believe that he did not oppose the proposal.<sup>2</sup> "Popolo d'Italia" stated that a Customs Union would constitute a pressure on the Italian frontiers of the Brenner Pass. Austria furthermore had vital interests in Trieste, once her only port. "Italy would be afraid to have Grossdeutschland as her neighbor", wrote a German historian.<sup>3</sup> Italy by strengthening her trade relations with many small countries had gradually built up a large market. A German expansion in the Balkans would abolish Italy's influence here, the result of years of hard work.

The Prime Minister of Bulgaria told the New York Times correspondent, that his country was in favor of the project and every other plan that might change the peace treaties.<sup>4</sup> Rumania and Yugoslavia seemed to be very cautious and reserved. According to "Jugoslawenski Glasnik" the proposal did not alarm Belgrade.<sup>5</sup>

The Russian "Izvestia" was in favor of the project. The

1. Berliner Tageblatt. March 25, 1931.

2. Ibid. March 23, 1931.

3. Liebrock, O., Deutschland in Weltpolitischen Geschehen. 1932.  
P. 163

4. New York Times. March 26, 1931.

5. Berliner Tageblatt. March 28, 1931.





U.S.S.R. was interested in an Anti-Versailles bloc and saw in Pan-Europe a menace to their Communism. The capitalist rule would be in **grave** danger if Pan-Germany expanded, a fact that afforded Russia great satisfaction.<sup>1</sup>

Switzerland saw final realization of the Anschluss as the purpose of this proposal.<sup>2</sup> It would mean that Switzerland might become a battlefield between France and the Southeastern Europe, dominated by Germany. German competition with Switzerland on the industrial market would also increase.

Most Americans, who at the peace conferences, gave the Anschluss dispute any thought - favored union between Austria and Germany. They could not understand why many European nations tried to prevent something so natural and inevitable.

The New York Times declared the Vienna Protocol a courageous step,<sup>3</sup> one of the most important developments in post-war Europe. Public men and economists had for years urged for action and begged for the lowering of tariff rates in Europe. Conferences and committees achieved nothing. Briand had been putting political considerations before economic realities. Now the first practical and purely economical step had been taken. Germany and Austria were making a definite beginning. While others were fumbling they had the courage to "raze the whole structure instead of taking a brick here and there off the tariff wall."

1. New York Times. March 25, 1931.

2. Berliner Tageblatt. March 25, 1931.

3. New York Times. March 23, 1931



Even with the example of the Zollverein in mind with the subsequent birth of the German Empire, it did not necessarily follow that political union must succeed economic cooperation. Moreover, modification of the Treaty of Versailles would make any reasonable development perfectly legal. While others "waited and debated" - Germany and Austria had acted. This was an instructive example for other nations. The New York Times concluded its article by advising the Washington government - "go you and do likewise".

Public opinion in the United States seemed to be in favor of the customs proposal. Washington was, however, somewhat stirred over the fact that trade rights of other nations were involved in this pact. The project was so skillfully framed that it might, according to the Times, evade both the peace treaties and the most-favored-nation clause, on which most other preferential treaties have been wrecked. The Washington government itself had a most-favored-nation treaty with Germany, still valid for many years. But even if other nations objected to the Vienna Protocol, Stimson declared that he would suspend official judgment until a careful study of the question had been made.

"It is a wise thing for them to do", said Senator Borah, "Europe cannot recover until there is a great change in the spirit of the Versailles treaty. I cannot see how anyone in Europe can object to the agreement."<sup>1</sup>

1. New York Times. March 25, 1931



The Vienna Protocol is a grave tactical blunder which threatens to jeopardize the Disarmament Conference, declared the British Press.<sup>1</sup> Englishmen looked upon the Protocol as a judicial question. Its fulfillment depended on its compatibility with the peace treaties. It would have been better if Germany and Austria during the negotiations had consulted other interested powers about the legal side of the problem. Even the Socialist "Daily Herald", previously a supporter of the Anschluss, having called French fears fantastic now spoke about the serious error in presenting the world a "fait accompli". The "Morning Post" stated that this tactless act was not intended to further Pan-Europe but Pan-Germany.

But they were not all antagonistic. The "Daily Express"<sup>2</sup> welcomed this Pact as the beginning of a European Union, even if it were going to leave Britain isolated. This, it was explained, would divide the world into three parts - the United States of America, Europe and the British Commonwealth. Tariffs in Europe would gradually be abolished and the reasons for frontiers would disappear. "England should not lament because of the expansion of a Free Trade Area, as long as the tariffs against the rest of the world were not too high," declared the liberal "News Chronicle". This ought to improve world trade and thus even be of advantage to England. Through this agreement great progress had been made in Briand's plan for an economic Pan-Europe.

1. Berliner Tageblatt. March 24, 1931.

2. Neue Freie Presse. March 23, 1931.





The "Daily Mail" <sup>1</sup> feared that Germany would destroy England's trade relations with Austria by selling their cheap goods. The preparations for the Protocol remarked the "London Times" were economic but it was very possible that the Pact later would turn out to have political significance - thus leading to another diplomatic crisis.

Two financial papers, the "Financial News" and the "Financial Times" seemed to favor the agreement. The latter criticized only the secret diplomacy between Vienna and Berlin. The "Financial News" saw no danger in a Customs Union. "The real danger lies in a disunited economic area and the tariff confusion in the small nations." <sup>2</sup>

All financial circles in England did not, however, approve of the Vienna Protocol. The Federation of British Industries protested on the grounds that it "might seriously injure the industrial interests of Great Britain."<sup>3</sup> They hoped that "the government would take measures to prevent the carrying out of the union."

Argus in his study "The economic aspect of the Customs Union" makes a detailed study in regard to its effect on English trade.<sup>4</sup> England, according to him would lose the Austrian mar-

1. Berliner Tageblatt. March 23, 1931

2. Ibid. March 24, 1931

3. Ball, M.M., Post-War German-Austrian Relations. 1936. P. 130.

4. Argus, "The Economic Aspect of the Austro-German Customs Union." 1931. Pp.49-50.



ket and suffer great losses in the German market, in consequence of increased industrialization and greater German output.

Britain's export to the Balkans would deteriorate. She would also suffer losses in Italy. Germany's competition with Great Britain would be more successful when able to use her industries to full capacity.

In taking into consideration the fact that German exports in an increasing degree were becoming dependent on Western European and overseas markets, it is evident she would probably strive to keep up her friendly trade relations with the rest of the world even if six and one-half million more people were added to her population. England should, on the other hand, welcome trade relations with an enlarged Germany. Britain still wanted to eliminate tariffs and was not fundamentally opposed to the agreement.

Reuter states that on March 26, 1931 France and England agreed to let the question of a Customs Union go to the League. Henderson believed that the main obstacle to the realization of the Protocol was the danger of its leading Austria to violation of her international obligations. The League machinery, he advised, was the best solution to this problem. Paris enthusiastically accepted Henderson's ideas.





Ch. VIII. The Customs Union and the League of Nations.

Chancellor Brüning, answering Henderson's and Briand's proposal to place the Vienna Protocol before the League, insisted that the Customs Union did not violate the peace treaties.<sup>1</sup> In his opinion the agreement was made in the spirit of European cooperation. It represented a plan to unify by regional understandings the various economic areas dissected from large pre-war economic units. The independence of the partners was not affected. Therefore, Henderson's proposed inquiry into the legal aspects of the Protocol was not justified. Brüning did not, however, oppose an examination of the question from a purely judicial angle.

In England Brüning's answer was regarded as discourteous. The Daily Herald said that Germany had "slapped the League in the face."<sup>2</sup> The conservative Morning Post decried the recent German tendency to "mount her high horses". But the Times stressed Brüning's remark that Germany was not opposed to a strictly judicial examination of the Protocol. Yet, Germany's refusal to refer the political aspects to the League, did not place Berlin in a very favorable position.

On March 31 Curtius spoke before the Reichsrat.<sup>3</sup> The conciliatory spirit of this declaration favorably impressed British

1. Dean, V.M., "European Efforts for Economic Collaboration".  
For. Pol. Rep. Vol. VII. No. 12. Aug. 19, 1931.

2. Berliner Tageblatt. March 26, 1931.

3. New York Herald Tribune. April 5, 1931.



opinion. Curtius reassured the world that the union problem was purely economic. Commercial difficulties had brought together the governments of Germany and Austria. Germany, he warned, was threatened by a serious economic collapse. She had five millions unemployed - willing to work. She was burdened by political obligations. Her agriculture languished. Capital had about totally vanished. The only solution to this serious problem was international cooperation. Pan-Europe would develop from regional agreements. Curtius told his listeners that Yugoslavia and Rumania were also planning a Customs Union, and gave the example of the Customs Union between Esthonia and Lithuania, functioning without friction for many years. The Austro-German proposal was not, stated Curtius, as exclusive as the plan presented by the Czechoslovakian Foreign Minister - "a Customs Union of the Little Entente, including Austria, but expressly excluding Germany." Explaining the relationship between Austria and Germany, he continued, "if the Customs Union between Luxemburg and Belgium, which implies an incomparably stronger affiliation of this small country, does not result in any impairment of its sovereignty and independence, this cannot possibly happen in the case of the Austro-German Customs Union, the inner structure of which guarantees in like manner the political, administrative and economic independence of both countries." He denied vigorously that this proposal was a threat to peace or an obstacle to the Disarmament Conference.

Germany consented to submit the question to the League of



Nations. Austria also gave her approval to this decision. Both promised not to enforce the customs agreement until the League had been consulted.

Meanwhile, in France, Briand had been defeated in the presidential election by Paul Doumer (May 13.) Premier Laval induced him to remain in office as Foreign Minister and to complete his mission at Geneva. England feared, however, that Briand might be of no further use in the European peace movement.

The Vienna Protocol was placed on the agenda of the May Session of the League Council. On his own initiative, Curtius submitted this complex problem to the European Committee at Geneva. On May 15th the Commission of Enquiry for European Union met at Geneva to discuss the Economic crisis and the Customs Union. To find a practical solution for this complicated economic situation the statesmen needed mutual understanding and cooperation. It was their opportunity to demonstrate that man is a reasoning rather than a fighting creature.

The first meeting of the League Council was characterized by bitter political controversies. Curtius discussed the difficult economic conditions in Europe and his favorite solution - the Customs Unions.<sup>1</sup> Briand, "the grand old man of the League", seemed to have lost some of his former prestige, but protested vigorously against the German method of solving the economic problem in Europe that, he stressed, France would never accept.<sup>2</sup>

1. League of Nations, Official Journal 1931. Pp.1073-1074.

2. Ibid. P. 1071.





The French, condemning the Customs Union as a violation of international obligations, presented a counter plan. In brief, France opposed all preferential agreements, and advised the retention or resumption of most-favored-nation treaties. Briand's plan would expand the Customs Union into a Central European or a Pan-European accord. France promised more financial help. England was cool to this vague proposal.<sup>1</sup>

Grandi, the Italian delegate, admitted that Customs Unions are not a cure all, especially in a continent with such a multitude of different and conflicting interests. A plan may afford advantages to one group and disadvantages to another. Different projects would benefit in different parts of the continent, in keeping with particular conditions. In the case of Austria, he continued, he was not convinced that the union would be advantageous.<sup>2</sup>

To add to the confusion, Geneva was full of rumors about a commission to be sent to Vienna to investigate her impending bankruptcy.<sup>3</sup> Some statesmen doubted Austria's good faith. They believed she was not striving hard enough to better her conditions, and as proof pointed to extravagances in her budget.

The French "Instructive Memorandum" was presented to the Council on May 18th.<sup>4</sup> It condemned the Protocol on several

1. Berliner Tageblatt. May 18, 1931

2. League of Nations Official Journal. 1931. P. 1072.

3. Berliner Tageblatt. May 16, 1931.

4. The Royal Institute of International Affairs,  
Documents of International Affairs. 1931. P.6.



counts, - first it objected to its secrecy; second, it compromised Austria's independence and was thus incompatible with the treaty obligations of the two countries, and finally it violated the most-favored-nation clause. Admitting Austria's urgent need the opponents of the measure feared the Protocol would disrupt European peace and fail to restore prosperity.

The memorandum also pointed to the preferential agreements provided for in Article 222 of the Treaty of Saint Germain. Since this Article was never applied, Austria had failed to demonstrate an honest desire to improve her status. Fundamentally, Austria should not negotiate with any one country, but must improve her relations with all the surrounding states. The French solution then was really a resurrection of Curtius' "regional agreements". France was certain that Austria's difficulties were only temporary - requiring a period of economic adaptation and proper exploitation of her own natural resources.

In a second speech, Grandi, with an eye on German expansion in the Balkans, failed to see how the Customs Union could aid Austria.

In answer to all these charges, Schober reasoned, "If, however, by a far reaching interpretation of the Geneva Protocol, the anxiety for our independence were pushed so far that we lost all freedom of action in our relations with foreign countries, then that attitude would indeed deprive us of our independence."<sup>1</sup> In other words, the Geneva Protocol not only pledged Austria to

1. League of Nations Official Journal. 1931. P. 1069.





maintain her independence, but also obliged the guarantor states to respect this independence.

"The essence of independence in international law," said Curtius, "is that every country must itself determine the extent of its commitments and independence."<sup>1</sup>

This general discussion took into consideration legal, historical, political, and economic aspects of the Austro-German Protocol. Tension was eased and the debate demonstrated a new interest in the practical study of the general economic crisis.

Finally, insisting that the problem was a legal controversy, Henderson moved to refer the question to the World Court.<sup>2</sup> When the compatibility of the proposal with certain international obligations had been demonstrated, the Council would again reconsider the Protocol. England, he said, was prepared to discuss the Customs Union after the Court had given its opinion. However, Briand warned that even if the Court found that the Protocol did not violate treaty obligations, France was still opposed to the project.

Germany and Austria agreed to submit to the Court, the question of the legality, but not the economic or political aspects of the plan. They were sure that the Protocol could stand a careful examination by the Court. A fact that may have strengthened Germany's faith in the World Court was its recent advisory opinion concerning access to German minority schools in Upper

1. League of Nations Official Journal. 1931. P. 1073.

2. Ibid. P. 1068.



Silesia, with a decision in favor of Germany.

Henderson's resolution to submit the question to the World Court for an advisory opinion was accepted unanimously.

But even before the World Court began its study of the controversy, an incident occurred that definitely prejudiced any favorable conclusion to the Austro-German Customs Union. - Austria disclosed her inability to continue payments on her debts. On May 11th, 1931, the Credit Anstalt collapsed, an Anstalt dominating almost three-fourths of Austria's industrial undertakings.<sup>1</sup> The steady withdrawal of French credits, together with the devaluation of Austrian and foreign stocks had given this great banking institution its death blow, though its close connection with the Boden Credit Anstalt and some mismanagement undoubtedly played their part.

When the Vienna Protocol was signed, Austria declared she was not aware of the conditions of the Credit Anstalt. The Anstalt had extensive connections in almost every important foreign financial centre. Thus the consequences of this crash were to be far-reaching.

Rumors reached Berlin that a loan from Paris might take the place of Customs Union.<sup>2</sup> Some banking organization under the French branch of the House of Rothschild was said to have made an offer to invest 150,000,000 shillings if Austria promised to abandon the Vienna Protocol. Austria is said to have rejected

1. Berliner Tageblatt. May 13, 1931.

2. Ibid. May 13, 1931.



this political-financial pressure and appealed to Britain for assistance. The Bank of England, fearing further delay, advanced the sum in form of short term loans.<sup>1</sup> France, greatly annoyed by this move, considered it a diplomatic defeat.

The most serious result of Austrian bankruptcy was its effect on the uncertain financial situation in Germany, already approaching ruin. In spite of the fact that the Credit Anstalt had been rescued, the exposure of the unsound condition of Central Europe could not be prevented. The political strain between Berlin and Paris and the lack of confidence in German economic conditions caused her creditors to withdraw their funds. The situation became desperate and seriously threatened to develop into a European debacle. To prevent a complete breakdown the Hoover moratorium was announced on June 22, 1931.

Germany had demonstrated herself too weak to help Austria financially. Accordingly, Austria looked elsewhere for support. She had discovered that French positive assistance was more helpful than German promises. Naturally then, conceptions of economic union were gradually abandoned even before securing the advisory opinion from the World Court.

1. League of Nations Official Journal. 1931. P. 2410.





Ch. 1X. Advisory Opinion of the World Court on the Customs Union between Austria and Germany.

On May 19th, 1931, the Permanent Court of International Justice, better known in the United States as the World Court, was requested to give an advisory opinion on the following question:

"Would a regime established between Germany and Austria on the basis and within the limits of the principles laid down by the Protocol of March 19th, 1931--be compatible with Article 88 of the Treaty of Saint Germain and with the Protocol No. 1 at Geneva on October 4th, 1922?" <sup>1</sup>

As previously promised, the request was merely concerned with the strictly legal aspects of the Vienna Protocol. The Court was to decide if Austria had violated certain assumed international obligations. The Court was not asked to give an opinion on the desirability of the Customs Union. Neither the policies involved nor the question of the legality of Germany's action were included.

In March, when the Protocol was announced, British jurists maintained in advance of the Court's opinion, that the pact was compatible with the treaties. <sup>2</sup> The German professor, Kelsen, also voicing his views before the Court released its verdict, announced that "the assimilation of customs laws and the removal of customs frontiers" would not in any way reduce the inde-

<sup>3</sup> pendence of Austria. Referring to Article 88 of the Treaty of Saint

1. Hudson, M.G., World Court Reports. Vol. 11. 1927-1932. P.713

2. Neue Freie Presse. March 24, 1931.

3. Ball, M.M., Post-War German-Austrian Relations. 1936. Pp.109-



Germain, he demonstrated that Austria's independence was secure, and that she was allowed freedom of action in concluding tariffs, trade and financial agreements. Since the Protocol provided for inclusion of other nations, Germany had not been granted exclusive advantages.

These final expressions of opinion, before the Court convened, were like the parting and final shots delivered for a lost cause.

First, from July 20 to August 5, public debates and hearings were held before the Court. Then arose the question of allowing Austria and Czechoslovakia to appoint national judges ad hoc to sit in this case. Considering the fact that the German judge represented the Austrian opinion and that France and Italy represented Czechoslovakia, the Court decided that there was no need for the appointment of judges ad hoc.<sup>1</sup>

After weeks of deliberation and study, on September 5th, 1931, the Court announced its "advisory opinion". By a vote 8 to 7 it was decided that the "Customs Regime" established by Germany and Austria in accordance with the Vienna Protocol of March 19, 1931, would not be compatible with the provisions of the Geneva Protocol of October 4, 1922.<sup>2</sup>

The majority opinion remarked that Austria was a "sensitive point" in the post-war European system. The maintenance of

1. League of Nations. Monthly Summary. Vol.XI. 1931. P.190.

2. Hudson, M. G., The World Court 1922-1938. P. 210.





Austria's independence was essential for the "present political settlement".<sup>1</sup> Examining the treaties involved and especially the meaning of the word independence, the majority opinion continued, that the Austrian consent to "abstain from any act which might compromise her independence" as stated in the last sentence of Article 88 refers to the first sentence involving the alienation of her independence, but is not necessarily an act directly causing the loss of her independence. It rather ought to be interpreted as an act "calculated to endanger" this independence so far as can be consistently foreseen.

In the Geneva Protocol, Austria assumed certain obligations in the economic sphere - not to "violate the economic independence by granting to any state a special regime or exclusive advantages calculated to threaten this independence." No other country bound by a Customs Union has ever accepted obligations to abstain from any act "calculated to compromise its economic independence" But through the General Protocol Austria was made an exception to this rule.

The opinion continued with an examination of the Vienna Protocol of 1931.<sup>2</sup> The provisions of this project did not by themselves "constitute an act alienating Austria's independence", because Austria would, in spite of the Protocol, still continue to exist as a separate state within her own frontiers and with

1. Hudson, M. G., World Court Reports. Vol. II. 1927-1932. P.719.

2. Ibid. Page 723.



her own government and administration.

But the Customs Union contributed certain exclusive advantages to Germany and this regime was, considered as a whole, threatening the economic independence of Austria. Therefore, the eight majority votes declared that the customs regime was incompatible with the obligations assumed in the before mentioned Geneva Protocol.<sup>1</sup>

On the affirmative side, Judge Anzilotti, in his individual opinion made it clear that a state remains independent in spite of extensive and burdensome obligations as long as its legal authority is not restricted. "According to ordinary international law, every country is free to renounce its independence and even its existence," Anzilotti remarked, but "this rule does not apply to Austria who, under Article 88, cannot voluntarily lose her independence" - except with the consent of the League.<sup>2</sup> Pointing out that Article 88 was adopted not to favor Austria, but to impose on her obligations favorable to Europe as a whole, Anzilotti maintained, that he was more concerned with questions of fact than over legal consequences. The restrictions in Article 88 were imposed to check the Anschluss movement between Germany and Austria. In the light of the facts known about this movement, "based upon community of race, language, culture and upon a very strong sentiment of common nationality", strengthened by the difficult post-war situation in Austria, Anzilotti looks into the

1. Hudson, M.G., World Court Reports. Vol. II. 1927-32. P. 724

2. Ibid. P. 727.



effect of this movement upon Austrian independence. Germany and Austria, he continues, disproportioned in economic strength, would with their economic life combined through the Customs Union, probably continue on the same path until political union was achieved. As a similar historic precedent the Fallvercin is mentioned, as playing "a by no means unimportant part in paving the way for German unity".

After this appreciative consideration of the political and economic facts involved, Anzilotti reaches the conclusion that the Customs Regime is incompatible both with the Vienna Protocol and with Article 88 of the Treaty of Saint-Germain. "Austria is therefore obliged to abstain from it or to ask the consent of the Council of the League of Nations."<sup>1</sup>

The dissenting minority maintained <sup>2</sup> that "a State would not be independent in the legal sense if it was placed in a condition of dependence on another power - if it lost the right to exercise its own judgment in coming to the decisions which the government of its territory entails." However, if a state agrees to restrict its liberty of action, without depriving itself of its "organic powers" the independence of the state is not affected. A clear distinction ought to be made between the alienation of independence and restrictions under law, accepted by a state without affecting its independence. For instance, membership in the League of Nations does not limit the independence of

1. Hudson, M.C., World Court Reports. Vol. II. 1927-32. P.735

2. Ibid. P. 737





the adhering states.

The minority opinion also held that before the customs regime could be condemned it must be proved that it imperiled "the continued existence of Austria as a state capable of exercising within its territory all the powers of an independent state." The Court was not concerned with political considerations. A legal decision should not be influenced by political consequences and future developments. If the regime was "calculated to threaten" the independence of Austria it is not the establishment of the regime, but possible consequences resulting from such an establishment, that are incompatible with Austria's treaty obligations. The Court found no evidence showing that a Customs Union concluded on the basis of complete equality would endanger the independence of the participating states. Furthermore, Article IX of the Vienna Protocol was included chiefly to guarantee the independence of Austria, providing that commercial treaties with third powers can be negotiated separately, but if possible jointly. The latter part of this stipulation did, however, oblige the states to "see that the interests of the other party are not violated." This would not, however, threaten Austria's independence, because if endangered, Austria could denounce the proposed treaty (Article XII.)

The minority opinion thus concluded that the customs regime was compatible both with the Geneva Protocol and Article 88 of the Treaty of Saint Germain.<sup>1</sup>

1. Hudson, M.G., World Court Reports. Vol. II. 1927-32.  
Pp. 741-42



On September 3, 1931, two days before the Court decision was announced, Schober and Curtius expressed their intention not to proceed with the intended negotiations.<sup>1</sup> They told the Commission of Enquiry for European Union at a meeting in Geneva, that they no longer wanted to "challenge the hostile opinion which the publication of the Protocol had invoked." This declaration, they hoped, would encourage foreign governments to cooperate more constructively. Both Austria and Germany would, according to their representatives, be willing to participate in this European collaboration.

The ruling of the World Court aroused a whirlwind of controversy.

As the supporter of a conception of a United States of Europe, France occupied a peculiar position. Public opinion was necessarily divided. Some could not honestly object to such a concrete proposal for economic recovery. At the same time a general satisfaction was evident over the Austro-German decision to discontinue negotiations. It was felt that the tense atmosphere in the European Committee would improve. Among other reasons, France had opposed the Anschluss immediately after the war on the grounds that Germany should not be compensated for her territorial losses. Popular opinion, except for extremists on either side, interpreted the decision as a reflection of the spirit of Versailles and a vindication of the French policy restraining growing German influence.

1. League of Nations Official Journal. 1931. P. 2186.





As for the Court's opinion, itself, it is interesting to note that the judges who wrote the opinion against the Union were almost all representatives of countries allied directly or indirectly with France. The votes cast by Cuba and Salvador, cancelled the weight of United States and Britain. The majority opinion was held by judges from France, Italy, Poland, Spain, Rumania, Salvador, Cuba and Columbia.

Defending the advisory opinion as not being a political one, Davis asks, "How did France lose the vote of Belgium?" - How was she able to dominate the votes of Spain and Italy, not at this time very friendly? And, furthermore, what interest would Columbia, Salvador and Cuba have in keeping Germany and Austria apart? <sup>1</sup>

If the judges had voted like ordinary politicians, taking national prejudices into consideration, the uproar of protest might be justified. But which opinion was guided by politics, which opinion by law - is a difficult question to answer.

The fact that so many judges dissented from the majority opinion deprived the judgment of much of its impressiveness. In answer, Davis maintains that unanimity is not a test of soundness. The judges split upon "questions clearly susceptible of different conclusions." He admits the existence of political considerations in the Court, when he states that, "judges are not archangels", - if we should do away with the Court "because it had been accused of responding to sectional or political in-

1. Davis, J.W., "The World Court Settles the Question".  
Atlantic Monthly. Jan. 1932.



fluences we should have abolished our own Supreme Court years ago."

The average American, favorable to the union, could not see why two states should not be allowed to absorb one another's goods in accordance with a mutual agreement. They believed the two countries should be praised for initiating a movement to abolish the tariff barriers retarding the recovery of Europe and the world. Popular indignation even condemned this narrow legalistic attitude, and some went so far as to suggest, that if the judges had not been influenced by politics, the Court could in order to achieve a great right - have ventured to do a little juridical wrong."

On the other hand, Davis insisted that the Court considered the Customs Union "from a practical standpoint, weighing those consequences which might be foreseen."

This wide divergence of opinion was not limited to the average citizen. An enquiry addressed to a group of judges, professors, lawyers and deans of schools of law revealed the same differences of opinion, almost in the same proportion as the World Court judges. Of the 63 who answered, 29 sided with the minority opinion, while 34 favored the majority. To add to the confusion, a number of those in sympathy with the majority decision, as the more reasonable, declared they were not opposed to Anschluss.

The Court confused judicial rights and obligations with political probabilities according to Margaret Ball, but the dis-



senting opinion seemed to be the "most logical".<sup>1</sup> The opinion of Davis is that the majority arrived at a "sounder result".

The press of Austria and Germany was disgusted with the way matters had been settled. It contended that the Customs Union between Rumania and Yugoslavia was not opposed. Besides, according to Anzilotti, a Danubian Federation would not have been forbidden. It was the special relationship between Austria and Germany that made the union dangerous for Austrian independence.

Aroused over the Court decision Leibrock warned,<sup>2</sup> that "from the German viewpoint, there is, in spite of the Hague decision over the Customs Protocol, no other solution for the Austrian problem than union with Germany. The common nationality and culture of these two countries already urges the people towards this union. If they both want to unite, no power in the world can in the long run prevent them from doing it."

1. Ball. M. M., Post-War German-Austrian Relations. 1936. P.177

2. Leibrock, O., Deutschland im welt politischen Geschehen. 1932. P. 163.





### Conclusion

Though the World Court had forbidden the Austro-German economic union, the problem still remained and demanded immediate solution. Following an appeal from Austria, the League of Nations sent a Commission of experts to Vienna. This act was bitterly denounced as a further burden on the Austrian taxpayer, for the free entertainment, lodgings and free railroad travel of the investigating committee.<sup>1</sup>

On July 15, 1932, Austria signed a new Geneva Protocol in which Great Britain, France, Italy, Belgium and the Netherlands promised financial assistance. The usual remedies of concentrating on natural resources, reciprocity treaties with Danubian States and new Federations were revived and solemnly reincorporated in the Commission's records. They did not forget to mention her water power, agriculture, and health resorts. Even the luring of vacationers from the Swiss to the Tirolese Alps was advised. It was like pouring water in a sieve. Never was a country blessed with more numerous, varied and expert plans to recover from economic prostration. Never was the response more dismal.

While proposals and counter proposals were hurled at Austria, in Germany, a National Socialist movement began to make itself felt and heard - its leader one Adolf Hitler.

In one of its reports on the movement, the "Berliner Tageblatt" remarked that the "student groups, inflamed with

1. Germain, V.W., Austria of To-Day. 1932. P. 242.



nationalist socialist ideas, at many occasions have shown that they are not filled with a healthy spirit of youth, but with a brutality that has nothing to do with Germany's cultural heritage."<sup>1</sup>

Von Papen may have had a prophetic insight when he proclaimed that "not only the existence of the German nation, but also the future of Europe depends on this Customs Union."<sup>2</sup> But Von Papen apparently laid too much emphasis upon this agreement. Germany, after years of dissatisfaction was ripe for the coup d'etat of the National Socialists. The failure to achieve union with Austria had but a minor effect on Germany's subsequent history.

Hitler was now in power. Five years later in March of 1938, his gigantic war machine rolled into Austria. Anschluss was accomplished by a simple order from der Fuhrer, now against Austria's consent.

This study of the Austro-German Customs Union demonstrates a fundamental truth that must be taken into consideration in any attempt to solve human problems. That is - no one effort, no single branch of man's labor or undertaking, stands out by itself. All his actions and accomplishments are so intimately related that the endeavor to remove or change one immediately effects the others.

1. Berliner Tageblatt. March 6, 1931.

2. Ball, M. M., Post-War German-Austrian Relations. P. 135





The world in general and the appointed judges in particular were unable to consider the Customs Union by itself - the purely legal aspects of the question was submerged by economic, political and social considerations and smothered by prejudice.



### Comprehensive Abstract.

The history of the Austro-German Customs Union represents a fascinating and eventful epoch in modern European annals. A review of this subject is particularly interesting in that it reveals that Austria's desperate and uncertain plight was a magnified echo of the entire European situation. Austria suffered in a more violent manner, the same privations and economic disasters experienced by the rest of the continent.

To remedy this situation economic union had been suggested at various times and occasions. A political union was out of the question for it had been expressly forbidden by the Peace Treaties of 1919 and by the Geneva Protocol. The latter assured Austria financial assistance if her economic and political independence were not impaired.

The Protocol was created to bolster Austria during the post-war chaos when the clamor for union was particularly insistent. At that time when the commercial crisis was at its height, the Austrian provinces threatened to take matters in their own hands if Vienna was unable to solve the problem.

For several years following this acute outburst, the Austrian Republic, under League supervision, made slow but steady gains in the economic field. In 1926 when Austria appeared to have achieved economic stability, League control ceased. But when the entire world slumped into an economic depression, Austria's condition became correspondingly worse. Thus union with Germany was again proposed as the solution for Austria's econom-



ic problems.

There were two methods available to accomplish this union. One was provided for in the Treaty of Saint Germain. This required, however, the unanimous consent of the League of Nations. As long as France feared a greater Germany, this consent would never be given. The alternative was openly to defy the treaty and proclaim the union.

To solve Austria's rapidly deteriorating position, the Gordian knot was cut with the announcement of the Vienna Protocol. The authors of this pact, after a careful study of stipulations of the peace treaties and the Geneva Protocol were certain that a Customs Union, in which the partners were treated as equals without compromising their independence, could not be denounced as a violation of any other treaty obligations.

The supporters of this union declared that its origin was purely economic, therefore, it should not be judged from a political point of view.

But taking into consideration the Austro-German background, it was impossible to limit the discussion to a purely economic sphere. Economic interests were not the only factors involved. Historical, cultural, racial and legal questions were intimately mingled. They had all played their part in the efforts to establish the Customs Union.

The advocates of the union insisted that Austria could not exist as an independent economic unit because of the territorial losses suffered after World War I.





The opponents of this plan were equally insistent that Austria could manage alone - though she might not be able to preserve her high standards of living. Austria, they advised, should modernize her industrial equipment and more fully utilize her natural resources, for the beneficial results of the Customs Union would be overbalanced by the ill effects.

Meanwhile, fuel was added to the fire by the failure of the Credit Anstalt. This collapse had extensive repercussions, that revealed the economic interdependence of today's nations.

The failure of the Credit Anstalt also demonstrated that Austria required French credit, assistance and confidence.

Supporting France in her opposition to this union, the Slav States feared that a greater Germany would attract the German minority groups incorporated within their own boundaries. France, on the other hand, feared that an expanding Germany would threaten the whole continent.

Italy, unwilling to have Germany spread to her own frontiers, warned that the union would lead to war. Thus France, Italy and the Little Entente, fearful for their national security, successfully vetoed the Customs Union.

However, the controversy proved beneficial in one respect. It presented to the world Austria's really critical situation. Many influential persons were won to the idea of treaty revision to better her conditions. They pointed to the League of Nations as having the machinery to do so, in Article XIX of the Covenant, which authorized the signatures to alter the status



quo.

The League could have sanctioned an open union between Germany and Austria and guaranteed its enforcement under League control. This would have safeguarded national security and at the same time prevented the possible danger of a secret political and military alliance.

But the League failed to take this action, and the question was referred to the World Court.

The Court's adverse opinion aroused a storm of violent discussions. Some even went so far as to accuse the Court of being dominated by political intrigues. Both the League and the Court lost prestige as a result of this affair.

After the decision, Austria was again given financial help - but without permanent results. Then the situation became further complicated by the rise of the National Socialists in Germany.

The actions of this movement alienated most Austrians from the idea of Anschluss. But by this time liberty of action was no longer their's. Hitler's order established complete union.



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